Astral

Unaudited interim results

for the six months ended 31 March 2020

2020

Revenue increase ▲ **4%**

Operating profit increase ▲ **8%**

Earnings per share ▶ **R9.51**

Condensed consolidated statement of comprehensive income

for the six months ended 31 March 2020

	Unaudited 6 months ended 31 March 2020 R'000	% change	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
Revenue	**7 068 602**	4	6 775 389	13 485 475
Cost of sales	**(5 529 750)**		(5 395 325)	(10 856 468)
Gross profit	**1 538 852**	12	1 380 064	2 629 007
Administrative expenses	**(395 849)**		(356 093)	(723 290)
Distribution costs	**(480 722)**		(423 008)	(833 734)
Marketing expenditure	**(116 463)**		(98 608)	(201 848)
Other net income and gains			705	12 144
Profit before interest and tax (note 4)	**545 818**	8	503 060	882 279
Finance costs – net	**(26 580)**		17 667	30 372
Finance income	**17 707**		23 830	41 286
Finance costs	**(44 287)**		(6 163)	(10 914)
Profit before income tax	**519 238**	0	520 727	912 651
Tax expense	**(148 103)**		(150 662)	(265 116)
Profit for the period	**371 135**	0	370 065	647 535
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurement of post-employment benefit obligations (net of deferred tax)				(2 178)
Items that may be subsequently reclassified to profit or loss				
Foreign currency (loss)/gain on investment loans to foreign subsidiaries	**294**		(585)	(414)
Foreign currency translation adjustments	**(8 957)**		2 861	1 292
Total comprehensive income for the period	**362 472**	(3)	372 341	646 235
Profit attributable to:				
Equity holders of the holding company	**368 964**	0	367 723	643 653
Non-controlling interests	**2 171**	(7)	2 342	3 882
	371 135	0	370 065	647 535
Comprehensive income attributable to:				
Equity holders of the holding company	**360 301**	(3)	369 999	642 353
Non-controlling interests	**2 171**	(7)	2 342	3 882
	362 472	(3)	372 341	646 235
Earnings per share (Rand)				
– basic	**R 9,51**	0	R 9,48	R 16,59
– diluted	**R 9,50**	0	R 9,47	R 16,58

Condensed consolidated balance sheet

as at 31 March 2020

	Unaudited 6 months ended 31 March 2020 R'000	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
Assets			
Non-current assets	**3 792 668**	2 507 239	2 658 236
Property, plant and equipment	**2 954 142**	2 311 150	2 462 918
Intangible assets	**57 778**	59 954	59 183
Right-of-use assets	**644 613**		
Goodwill	**136 135**	136 135	136 135
Current assets	**3 638 423**	3 506 857	3 580 883
Biological assets	**800 655**	779 089	758 721
Inventories	**980 709**	736 293	691 058
Trade and other receivables	**1 361 379**	1 517 909	1 512 398
Current tax asset	**5 457**	19 656	19 717
Cash and cash equivalents	**490 223**	453 910	598 989
Total assets	**7 431 091**	6 014 096	6 239 119
Equity			
Capital and reserves attributable to equity holders of the parent company	**3 955 808**	3 689 815	3 784 227
Issued capital	**90 400**	87 065	90 400
Treasury shares	**(228 111)**	(204 435)	(204 435)
Reserves	**4 093 519**	3 807 185	3 898 262
Non-controlling interest	**12 259**	11 188	11 408
Total equity	**3 968 067**	3 701 003	3 795 635
Liabilities			
Non-current liabilities	**1 233 884**	656 794	705 600
Deferred tax liability	**601 044**	519 385	539 421
Employment benefit obligations	**142 837**	137 409	166 179
Lease liability	**490 003**		
Current liabilities	**2 229 140**	1 656 299	1 737 884
Trade and other liabilities	**1 769 081**	1 399 497	1 411 135
Employment benefit obligations	**237 113**	220 428	254 107
Current tax liabilities	**26 280**	11 197	25 772
Lease liability	**174 084**		
Borrowings	**19 743**	22 496	44 115
Shareholders for dividend	**2 839**	2 681	2 755
Total liabilities	**3 463 024**	2 313 093	2 443 484
Total equity and liabilities	**7 431 091**	6 014 096	6 239 119

Condensed consolidated statement of cash flows

for the six months ended 31 March 2020

	Unaudited 6 months ended 31 March 2020 R'000	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
Cash operating profit	**714 963**	407 384	936 440
Changes in working capital	**(116 517)**	100 196	257 308
Cash generated from operating activities	**598 446**	507 580	1 193 748
Income tax paid	**(70 512)**	(131 881)	(213 907)
Cash flows from operating activities	**527 934**	375 699	979 841
Cash used in investing activities	**(293 300)**	(321 200)	(615 982)
Purchases of property, plant and equipment	**(309 387)**	(343 224)	(653 444)
Costs incurred on intangibles	**(1 649)**	(1 829)	(4 141)
Proceeds on disposal of property, plant and equipment	**29**	23	317
Finance income	**17 707**	23 830	41 286
Cash flows to financing activities	**(315 316)**	(411 633)	(595 871)
Dividends paid	**(166 280)**	(408 784)	(594 367)
Lease payments – principal element	**(87 262)**		
Finance expenses	**(38 098)**	(3 163)	(5 153)
Treasury shares acquired in terms of the Forfeitable share plan	**(23 676)**		
Proceeds from shares issued		314	3 649
Net movement in cash and cash equivalents	**(80 682)**	(357 134)	(232 012)
Effects of exchange rate changes	**(3 712)**	(18)	(1 680)
Cash and cash equivalent balances at beginning of year	**554 874**	788 566	788 566
Cash and cash equivalent balances at end of period (note 6)	**470 480**	431 414	554 874

Condensed consolidated statement of changes in equity

for the six months ended 31 March 2020

	Unaudited 6 months ended 31 March 2020 R'000	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
Balance beginning of year	**3 795 635**	3 737 418	3 737 418
Change in accounting policy: adoption of expected credit loss model for impairments			3 059
Profit for the period	**371 135**	370 065	647 535
Other comprehensive income/(loss) for the period, net of tax	**(8 663)**	2 276	(1 300)
Dividends to shareholders	**(166 364)**	(409 069)	(594 726)
Treasury shares acquired in terms of the Forfeitable share plan	**(23 676)**		
Proceeds on shares issued		313	3 649
Balance at end of period	**3 968 067**	3 701 003	3 795 635

Condensed consolidated segmental analysis

for the six months ended 31 March 2020

	Unaudited 6 months ended 31 March 2020 R'000	% change	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
Revenue				
Poultry	**5 643 563**	3	5 471 655	10 877 135
Feed	**3 509 218**	6	3 303 235	6 573 738
Other Africa	**238 650**	7	223 063	479 645
Inter-group	**(2 322 829)**		(2 222 564)	(4 445 043)
	7 068 602	4	6 775 389	13 485 475
Operating profit				
Poultry	**287 434**	12	257 706	370 977
Feed	**242 712**	2	238 595	489 483
Other Africa	**15 672**	132	6 759	21 819
	545 818	8	503 060	882 279

Additional information

for the six months ended 31 March 2020

	Unaudited 6 months ended 31 March 2020	Unaudited 6 months ended 31 March 2019	Audited 12 months ended 30 Sept 2019
Headline earnings (R'000) – (note 5)	**369 080**	368 033	649 638
Headline earnings per share (Rand)			
– basic	**R 9,51**	R 9,49	R 16,74
– diluted	**R 9,50**	R 9,48	R 16,74
Dividends per share (Rand) – declared out of earnings for the period			
– Interim dividend	**nil**	R 4,75	R 4,75
– Final dividend			R 4,25
– Total dividend			R 9,00
Number of ordinary shares			
– Issued net of treasury shares	**38 719 158**	38 801 808	38 833 658
– Weighted-average	**38 790 878**	38 800 638	38 806 070
– Diluted weighted-average	**38 833 658**	38 814 198	38 816 916
Net cash – cash and cash equivalents less borrowings (R'000)	**470 480**	431 414	554 874
Net asset value per share	**R 102,17**	R 95,09	R 97,45

1. Nature of business

Astral is a leading South African integrated poultry producer. Key activities consist of manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, integrated breeder and broiler production operations, abattoirs and sale and distribution of various key poultry brands.

2. Basis of preparation

The condensed interim financial statements for the six months ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 – Interim Financial Reporting, the Listing Requirements of the JSE Limited and the South African Companies Act (2008). These condensed interim financial statements have been prepared under the supervision of the financial director, DD Ferreira CA(SA).

These condensed interim financial statements have not been reviewed or audited by the group's auditors.

3. Accounting policies

The accounting policies applied in these condensed interim financial statements comply with IFRS and are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 30 September 2019, except for the mandatory adoption of IFRS16 – Leases.

IFRS 16 requires that leases be recognised as right-of-use assets with corresponding lease liabilities. Lease assets are amortised, whilst lease payments are apportioned between a finance cost component, recognised as a finance charge, and a reduction of the outstanding principal amount of the lease liabilities. The impact of this change in accounting policy on the results for this financial period is an increase in the profit before interest and tax of R16,1 million, additional finance costs of R35 miilion with a reduction in the profit before income tax of R19.1 million. Right-of-use assets of R644,6 million and lease liabilities of R 664,1 million have been recognised in the balance sheet.

	Unaudited 6 months ended 31 March 2020 R'000	Unaudited 6 months ended 31 March 2019 R'000	Audited 12 months ended 30 Sept 2019 R'000
4. Profit before interest and tax			
The following items have been accounted for in the profit before interest and tax:			
Biological assets – fair value gain/(loss)	**2 886**	(1 514)	(3 108)
Amortisation of intangible assets	**3 024**	3 044	6 092
Depreciation on property, plant and equipment	**87 560**	84 881	170 138
Amortisation of Right-of-use asset	**106 366**		
Loss/(Profit) on sale of property, plant and equipment	**160**	434	(74)
Insurance recoveries		3 776	3 894
Assets scrapped			8 364
Fair value adjustments to outstanding receivables and payables			6 016
5. Reconciliation to headline earnings			
Net profit attributable to shareholders	**368 964**	367 723	643 653
Loss/(profit) on sale of property, plant and equipment (net of tax)	**116**	310	(38)
Loss on assets scrapped (net of tax)			6 023
Headline earnings for the period	**369 080**	368 033	649 638
6. Cash and cash equivalents per cash flow statement			
Bank overdrafts (included in current borrowings)	**(19 743)**	(22 496)	(44 115)
Cash at bank and in hand	**490 223**	453 910	598 989
Cash and cash equivalents per cash flow statement	**470 480**	431 414	554 874
7. Commitments			
Capital expenditure approved not contracted	**179 182**	515 258	191 153
Capital expenditure contracted not recognised in financial statements	**162 498**	581 885	342 646
Cost on intangibles contracted not recognised in financial statements			2 906
Raw material contracted amounts not recognised in the statement of financial position	**959 396**	1 371 734	1 376 532

FINANCIAL OVERVIEW

The consolidated revenue for the group increased by 4.3% to R7 068 million primarily as result of the increase in poultry's external revenue, which contributed 79% to the consolidated revenue.

Operating profit at R546 million increased by 8.5% on the comparable period of the prior year mainly as result of a R30 million improvement in poultry's profit. Both the feed and other Africa segments also reported marginal improvements on their respective prior year's profits. The group's operating profit margin was 7.7% (2019: 7.4%). The group adopted IFRS16 – leases for its 2020 financial year. The impact on the financial statements is the recognition of right-of-use assets to the value of R645 million and lease liabilities of R664 million. Lease payments for the period of R122 million are excluded from operating expenses, whilst an additional amortisation charge of R106 million has been recognised. Finance costs has been increased by R35 million. The net after tax impact on the profits for the period as a result of this change in accounting of leases was a reduction of R14 million in the earnings.

The increase in non-current assets to R3 793 million (September 2019: R2 658 million) was mainly as result of the above mentioned recognition of right-of-use assets and further capital expenditure incurred on the expansion of the Festive processing plant.

Net cash outflow of R81 million was reported for the period. Cash flows from operating activities of R598 million now exclude the lease payments of R122 million whilst cash flow to financing activities includes payments in respect of lease finance charges of R35 million and lease principal payments of R87 million. Astral reported a surplus cash balance of R470 million at the end of the reporting period.

OPERATIONAL OVERVIEW

Poultry Division

Revenue for the division increased by 3.1% to R5.6 billion (1H2019: R5.5 billion), supported by an increase in revenue from the group's breeding operations. The broiler operations reported an increase in revenue on the back of higher selling prices.

Broiler sales volumes were down by 2.5% (5 735 tons), due to a change in the point of recognition of sales with a new third party distribution agreement implemented on 1 December 2019, which is now based on a consignment stock model. Consumer demand remained subdued; however less promotional activity was required to manage stock levels.

Broiler feed prices increased 6.0% on a Rand per ton basis due to higher raw material costs for the reporting period. Feed conversion efficiency improved further, slightly offsetting the higher feeding cost per broiler produced.

Operating profit for the poultry division increased by 11.5% to R287 million (1H2019: R258 million), underpinned by improved profitability in the breeding operations. Improved broiler sales realisations offset higher feed input costs, whilst certain extraordinary expenses negatively impacted profitability for this division. The legislated minimum wage, the impact of load shedding nationally, ongoing additional water supply costs in Standerton, and costs associated with COVID-19, all contributed to a higher base cost of production during the period under review. The operating profit margin increased to 5.1%, compared to a profit margin of 4.7% achieved in the prior period.

Total poultry imports remained high, with the average monthly total poultry imports for the period under review equalling approximately 30% of local consumption, at an average of 42 907 tons per month.

Feed Division

Revenue increased by 6.2% to R3.5 billion (1H2019: R3.3 billion) as a direct result of higher selling prices on the back of increases in raw material costs. Safex yellow maize prices increased to an average of R2 703 per ton for the period under review (1H2019: R2 579).

Feed sales volumes in the division decreased marginally by 0.5% as the internal requirement for broiler feed decreased (1.2%), on an improved broiler feed conversion rate. Higher external sales volumes (0.5%) were reported due to increased feed sales to the dairy, beef, sheep and commercial layer sectors.

The operating profit for this division increased by 1.7% to R243 million (1H2019: R239 million), with a decrease in the operating profit margin to 6.9% (1H2019: 7.2%). The division benefitted from well controlled expenses and effective raw material cost recovery.

Other Africa Division

This division, consisting of both feed and poultry operations in three countries namely; Zambia, Mozambique and Swaziland, reported an increase in revenue of 7.0% to R239 million (1H2019: R223 million), largely due to higher selling prices on the back of an increase in raw material input costs. Sales volumes decreased by 4.0% on lower feed sales volumes in Zambia and Mozambique. The operating profit increased to R16 million (1H2019: R7 million) on a good performance from Swaziland and improved profitability in Mozambique, where the comparable period for the latter was impacted by a provision for the doubtful recovery of VAT from the Mozambican government on imported raw materials.

OUTLOOK

Astral's view on the near-term prospects is heavily weighted to the impact of the lockdown and the challenges that this brings to the economy as a whole. In the medium to long term the poultry industry will not escape the impact of an even weaker economy brought about by the lockdown, and the subsequent impact this has had on the ability of South Africans to earn a living wage.

- Unprecedented unemployment rate expected following the hard lockdown and resultant financial impact on businesses and the economy at large.
- Consumer disposable income will be severely constrained, with a very slow recovery out of the lockdown as expected by most economists.
- Exchange rate effect on input costs, with the Rand pricing of soya and maize negatively impacted.
- Higher costs due to COVID-19 with constraints on global supply chains and price increases of essential inputs.
- QSR sector shutdown (accounting for 20% of poultry consumed) and late payments, due to this market sector being impacted during the lockdown.
- Product mix change resulting in a shift to lower margin products on slower fresh, value added and QSR sales.
- Astral's capacity expansion delayed, due to project commissioning not being completed as a result of the lockdown.
- All of Astral's operations are running like clockwork and to date no disruptions have been experienced, with stringent social distancing, screening and employee welfare measures (sufficient PPE) implemented.
- Above average maize crop for the 2020 harvest season, should result in favourable feed costs from August if not further impacted by local currency weakness.
- Higher import tariffs on frozen bone-in portions announced in March 2020, should go some way in levelling the playing fields and discouraging unfair trade.
- Production efficiency and product mix opportunities when the Festive expansion is completed.
- Progressive genetic improvement of the Ross broiler breed will continue to support the group's best cost strategy.

Astral remains committed to its stated strategy, and under the challenges of the lockdown we will endeavor to play the expected role of being an essential food supplier to the nation. Astral applauds the commitment of all staff to their front line responsibilities during these trying times, and the company remains committed to providing uncompromised quality and service to our customers.

DIVIDEND

The Astral Board agreed that no interim dividend would be declared under the present economic circumstances, whilst also considering the extreme uncertainty of the near future created by the seemingly indefinite COVID-19 lockdown.

On behalf of the board

T Eloff
Chairman

C E Schutte
Chief Executive Officer

Pretoria
12 May 2020

More than just feed

Registered office: 92 Koranna Avenue, Doringkloof, Centurion, 0157, South Africa, Postnet Suite 278, Private Bag X1028, Doringkloof, 0140 Telephone: +27 (12) 667 5468 • **Directors** Dr T Eloff *(Chairman)*, CE Schutte* *(Chief Executive Officer)*, GD Arnold*, AB Crocker*, DD Ferreira* *(Chief Financial Officer)*, DJ Fouche, S Mayet, WF Potgieter, TM Shabangu *(*Executive director)* • **Company Secretary** L Marupen • **Transfer secretaries** Computershare Investor Services Proprietary Limited, PO Box 61051, Marshalltown, 2107, Telephone: +27 (11) 370 5000 • **Sponsor** Nedbank Corporate and Investing Banking, a division of Nedbank Limited, 135 Rivonia Campus, Rivonia Road, Sandown, 2196 Tel +27 (11) 294 4444. Incorporated in the Republic of South Africa Registration no 1978/003194/06 Share code ARL ISIN ZAE000029757