RFG Holdings Limited
(Incorporated in the Republic of South Africa)
Registration number 2012/074392/06
JSE share code: RFG
ISIN: ZAE000191979
("RFG" or "the group" or "the company")

SHORT-FORM ANNOUNCEMENT

Summarised consolidated results for the six months ended 29 March 2020

- Group turnover up 9.6%
- Regional turnover up 11.5%
- International turnover up 0.5%
- EBITDA up 4.3%
- Net foreign exchange losses of R47.6 million (2019: net gains of R14.1 million)
- Operating profit 5.3% lower
- Diluted HEPS down 3.1%
- Cash generated from operations up 16.6%
- Net debt/equity ratio improved from 58.9% to 55.0%

COMMENTARY

Trading and financial performance
Group turnover increased by 9.6% to R2.9 billion.

Turnover in the regional segment (South Africa and the rest of Africa) increased by 11.5% and benefited from strong sales in March following the state of disaster being declared in the country and ahead of the introduction of the national lockdown. Sales for March were 22.2% higher than the previous year.

Long Life Foods increased turnover by 12.6% (6.3% volume growth) with good growth in fruit juices and baked beans and particularly strong sales in canned fruit, vegetables and meat in March before the start of the lockdown.

Fresh Foods sales increased by 9.6%, with volume growth of 4.7% and acquisitive growth of 3.2%. The ready meals and pie categories continued to be the main drivers of sales growth.

International turnover was in line with last year. The division was severely impacted by the slowdown in exports of canned fruit to China from early January following the outbreak of Covid-19. Limited shipments were made to China in the first quarter of 2020 and exports were further impacted by constraints at the Cape Town port in March, contributing to a decline of 11.5% in international volumes.

As a result of the foreign exchange losses, the group's operating profit declined by 5.3% to R160.7 million and the operating margin declined to 5.5% from 6.3%.

The regional operating profit increased by 21.1% as the operating margin improved from 7.6% to 8.3%, lifted by the good growth in the Fresh Foods segment.

The sudden and rapid devaluation of the Rand had a significant impact on the profitability of the international segment, with net unrealised losses on the mark-to-market revaluation of forward exchange contracts (FECs) amounting to R48.8 million for the period (2019: net gains of R4.9 million). The difference of R1.2 million relates to net gains on other foreign currency denominated assets and liabilities (2019: net gains of R9.2 million).

This contributed to the international segment posting a loss for the first half of R44.0 million relative to a profit of R3.7 million in the prior period. The international operating margin declined from 0.8% to -9.5%.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 4.3% to R260.6 million, while the EBITDA margin was lower at 8.9% (2019: 9.3%).

Net interest paid reduced by R4.1 million to R54.0 million owing to the reduction in the group's debt levels. Excluding an IFRS 16 interest charge of R5.6 million, interest paid reduced by R9.7 million or 16.7%.

Profit after tax declined by 3.0% to R77.8 million while headline earnings were 3.0% lower at R81.6 million. The group's earnings per share declined by 2.3% to 30.2 cents and headline earnings per share by 2.8% to 31.2 cents. Diluted headline earnings per share was down 3.1% at 31.1 cents.

Net working capital days improved from 133 to 128 days. A 13 day improvement in inventory days was negated by the combined increase of 8 days in debtor and creditor days.

Cash generated from operations increased by 16.6% to R137.8 million. The group repaid term loans of R121.8 million while capital expenditure for the six months reduced from R129.0 million to R87.2 million. Net debt, now including lease liabilities of R106.6 million in the current year, reduced by R24.1 million and the net debt to equity ratio improved from 58.9% to 55.0%.

Outlook
Owing to the anticipated negative impact of Covid-19 on the economy and the increased risk to the business, management is focusing on cash preservation through tighter cost management and by reviewing all non-critical expenditure, including capital investment. Measures being undertaken include maximising exports to improve cash flow and the closure of factories where necessary. Reducing debt levels and improving working capital efficiency remain priorities for the group.

The reductions in the SA Reserve Bank's repo rate totaling 225 basis points should have a material benefit to the group in the second half although this could be partially eroded by increased borrowings owing to Covid-19 related impacts on cash flows.

Capital expenditure for the financial year is expected to be R150 million. While certain capital projects are being delayed the group has committed to installing a new fruit juice line in its Wellington factory to meet increased demand.

In the regional segment, sales of Long Life Foods for the first seven weeks of the second half of the financial year have remained buoyant, with continued strong demand for canned fruit, vegetables and meat. Fresh Foods sales have slowed owing mainly to the restrictions on the sale of hot pies during lockdown.

RFG's supply chain continues to function efficiently despite numerous Covid-19 related constraints, and the group has sufficient imported and local raw material stock cover. Management is confident that the group has adequate stock to meet the increased demand for Long Life products.

Consumer spending is likely to come under extreme pressure as the economy suffers from the effects of the lockdown measures. RFG's broad range of product categories is providing a degree of resilience and the focus in the regional segment in the months ahead will be on driving organic growth, maintaining margins and increasing brand shares.

The recent deterioration in the Rand/US dollar exchange rate will have a favourable impact on the profitability of the international segment in the second half of the year.

The group expects a slow recovery in exports of canned fruit into China from around July. Management is confident that product previously destined for China in the first half of the year will be placed in other markets.

Any reference to future performance included in this announcement has not been reviewed or reported on by the group's independent auditor.

Bruce Henderson
Chief Executive Officer

Tiaan Schoombie
Chief Financial Officer

Groot Drakenstein
19 May 2020

This short-form announcement is the responsibility of the company's directors and is a summary of the detailed interim results announcement and does not contain full or complete details. The announcement can be downloaded from https://senspdf.jse.co.za/documents/2020/jse/isse/RFG/H12020.pdf and on the group's website at www.rfg.com. The full announcement is available for inspection, at no charge, at the company's registered office (Pniel Road, Groot Drakenstein) and at the office of the sponsor (1 Merchant Place, corner Rivonia Road and Fredman Drive, Sandton) during office hours for a period of 30 calendar days following the date of this announcement. Any investment decision in relation to the company's shares should be based on the full announcement.

The directors have elected to engage the group's auditors, Deloitte & Touche, to conduct a voluntary review of the condensed consolidated financial statements.

The group's auditors have issued an unmodified review conclusion on the condensed consolidated financial statements. Any reference to the group's outlook included in this announcement has not been reviewed or reported on by the group's auditors.

Directors: Dr YG Muthien* (Chairperson), BAS Henderson (Chief Executive Officer), MR Bower* (Lead Independent Director), TP Leeuw*, LA Makenete*, BN Njobe*, CC Schoombie (Chief Financial Officer), CL Smart**, GJH Willis**

* Independent non-executive   **Non-executive

Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)

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