Tongaat Hulett Limited
(Registration number 1892/000610/06)
Share code: TON
ISIN ZAE000096541
("Tongaat Hulett" or "the Group" or “the Company”)

TRADING STATEMENT AND OPERATIONAL UPDATE FOR THE YEAR ENDED 31 MARCH 2020

The following trading statement is issued in terms of Section 3.4 (b) of the JSE Limited (“JSE”) Listings Requirements.

Tongaat Hulett is pleased to announce an increase in operating profit for the year ended 31 March 2020 of more than 200% from R1,2 billion in the prior year. This result is on the back of excellent progress with the overall business turnaround strategy. The Board believes that the underlying fundamentals of the business are good and that the Group is in a much stronger position than it was a year ago.

Whilst the impact of hyperinflation in Zimbabwe had a significant bearing on the reported growth, it is the return to profitability in the Mozambican operations and the reduction in the operating loss in South Africa, that most clearly demonstrate the improvements that have been made in the past year. This is evidenced in the operating profit excluding Zimbabwe operations, increasing from R6 million in 2019 to close to R1 billion in 2020. The starch and glucose business continued to operate to plan, delivering strong cash flows.

Shareholders are advised that a reasonable degree of certainty exists that Tongaat Hulett's headline earnings for the year ended 31 March 2020 is expected to show a substantial improvement compared to the headline loss of R923 million for the 2019 financial year.

Consequently, earnings per share (“EPS”) and headline earnings per share (“HEPS”) for the year ended 31 March 2020 are expected to be within the ranges reflected in the table below.

	March 2019	**March 2020**	**March 2020**
	As reported	**Expected range**	**Expected %**
Weighted average number of shares	112,3 million	134,8 million	+20%
Earnings/(loss) for the year	(R1 063 million)	R56 million to R185 million	+105% to +117%
Earnings/(loss) per share	(948 cents)	42 cents to 137 cents	+104% to +114%
Headline earnings/(loss) for the year	(R923 million)	R68 million to R178 million	+107% to +119%
Headline earnings/(loss) per share	(823 cents)	50 cents to 132 cents	+106% to +116%

As the financial results of the starch and glucose operation are included in the Group's results for a twelve-month period for both the current and previous year, the Board concluded that the guidance provided above was the most relevant and meaningful for shareholders. Full disclosure concerning the classification of the starch and glucose operation as a discontinued operation will be provided in the annual financial statements.

In the context of the disposal of the starch and glucose operation, a deferred tax asset has now been recognised for the Company's tax loss to the extent that it is probable that future taxable profit will allow for the recoverability thereof, thereby increasing earnings by approximately R300 million. Higher finance costs, together with a net monetary loss arising from hyperinflation accounting in Zimbabwe, countered some of the strong improvements in operating profit of the Group, leading to the earnings outcomes depicted in the table above.

The Mozambican sugar operations generated a meaningful operating profit, compared to a loss in the previous two years. Local market sales increased by more than 20% and the Xinavane refinery generated a notable profit in its first full season of operation. Good cost containment contributed further to the positive result.

The South African sugar operations produced significant improvements in production, productivity and cost management, culminating in improved cash flows and a more than 70% reduction in the operating loss in these operations. After adjusting for depreciation and fair value movements on biological assets, the operation reflected an operating profit for the year. This is despite a number of once-off costs resulting from the turnaround initiatives progressed within the business. The sugar mills recorded one of the best performances in recent years. Local market sales benefited from increased volumes and the impact of the previous two price increases. Industrial sales remained depressed due to the continued impact of the Health Promotion Levy.

Operating profit in the Zimbabwean operations increased by more than 140%. Tongaat Hulett applied the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies* to the financial results of the Zimbabwean operations for the year ended 31 March 2020. Zimbabwe's official inflation rate has increased substantially and, as at 31 March 2020, equated to 676% relative to 31 March 2019. High levels of inflation have a positive impact on the fair value of biological assets. Furthermore, the application of hyperinflation accounting requires the use of the official exchange rate quoted by the Reserve Bank of Zimbabwe of ZWL$25 : US$1 to translate profit into Rand. These factors substantially increased the Rand-denominated operating profit in these operations. The use of the information exchange rate that has emerged within the country of ZWL$ 42 : US$1 would help mitigate some of this distortion. Further details of the impact of hyperinflation on the operations and the assumptions used will be provided in the annual results.

Sugar production at the Zimbabwean operations declined marginally. Local sales volumes and pricing were managed carefully to prevent sales arbitrage to surrounding markets. The current hyperinflationary economy also impacts on customers' affordability. Ethanol sales grew substantially, while the contribution from exports remained stable. Surplus export proceeds were prioritised to reduce foreign-denominated borrowings, which decreased to US$6,9 million from US$17,0 million at March 2019. In June 2020, a dividend of US$2 million was received in South Africa from the Zimbabwean operations.

The starch and glucose operation continued its stable and predictable operating performance. Sales volumes were steady, with domestic sales volumes benefiting from increased demand in alcoholic beverages, continued growth in the coffee creamer sector and importantly the recapture of imported glucose volumes within the confectionary sector, with the latter also benefiting from new customer investments. As expected, the high maize prices impacted margins, resulting in a modest reduction in operating profit in the starch and glucose operation. The strong cash generation in the business continued.

Land conversion and development profits increased by more than 130%. A considerable effort was made to secure the planning approvals and development rights necessary to conclude several legacy deals and transfer the properties to the respective purchasers. In terms of the 2019 revised accounting policies, revenue from land sales is only recognised on the date the property is transferred. Two large land sales in Tinley South and Sibaya were finalised in the period. New deals concluded and transferred in the period totalled R144 million.

Cash flow generated from operations, after working capital, was positive for the year. The working capital cycle normalised following the year-end, as deferred creditors from the previous financial year were settled and supply terms were brought up to the Group's terms. In line with efforts to manage the seasonal working capital cycle in the South African sugar operation, the Group was able to reduce the peak of the cycle by close to R900 million compared to the prior year. With the exception of a project to expand the area under cane in Zimbabwe, capital expenditure during the period was confined to essential replacement items.

In South Africa, net borrowings at 31 March 2020 was R10,4 billion (2019: R9,9 billion). Net borrowings in Mozambique was R1,4 billion compared to R1,2 billion in the prior year, with the increase attributable to a higher cost of financing and a stronger Metical against the Rand.

COVID-19 pandemic impact

Tongaat Hulett was classified as an essential service and was therefore operational throughout the lockdown period across all its geographic locations. The annual results to 31 March 2020 were not materially impacted by the pandemic or the lockdown. In light of the impact of the COVID-19 pandemic on the macroeconomics, the Board re-assessed the valuations of the underlying businesses using a number of potential outcomes and are pleased to report that there was sufficient headroom in all businesses and no impairments were deemed necessary at the year-end.

From 1 April 2020, the financial impact on the sugar operations continues to be limited, while the starch operation has seen a reduction in volumes related to alcoholic demand in South Africa under lockdown levels 5 and 4, which will start to recover under Level 3. The recent reopening of the deeds office and municipal services will facilitate land development and further property transfers.

As the Group's borrowings have a variable interest rate, it will benefit from the 250-basis point reduction in interest rates in both South Africa and Mozambique.

While the full extent of the impact on the economy and sales remains uncertain, the Group is actively monitoring the impact of COVID-19 on the business and its liquidity whilst ensuring the protection of its employees, customers and businesses.

Disposal of the starch business

Shareholders are referred to SENS announcements on 28 February 2020, 12 May 2020 and 4 June 2020, related to the proposed disposal of Tongaat Hulett's starch and glucose operation to a Barloworld Limited subsidiary KLL Group for a purchase consideration of R5,35 billion, before adjustments for debt and working capital.

The KLL Group notified Tongaat Hulett in late April 2020 of their view that the impact of, inter alia, the COVID-19 global pandemic is reasonably likely to cause the EBITDA of the starch business for the financial year ending 31 March 2021 to be 82.5% or less of the EBITDA of the starch business for the financial year ended 31 March 2020, and that, therefore, KLL Group has formed the view that a material adverse change ("MAC") has occurred.

Tongaat Hulett remains firmly of the view that a MAC has not occurred.

THL and the KLL Group have agreed to refer the matter to an independent third party for resolution, who is yet to be appointed. The disposal agreement remains in force and effect, and the company will continue to drive the transaction by closing workstream activities, including the Competition Commission process, in parallel with the MAC dispute.

At the general meeting of Tongaat Hulett's shareholders held on 5 June 2020, shareholders approved all resolutions required for the Group to implement the disposal of the starch business. The Board remains fully committed to seeing the deal through to completion.

Further cautionary announcement

Having regard to the MAC event dispute referred to in this announcement, shareholders are advised to continue to exercise caution when dealing in the Company's securities.

Annual results

The release of the annual results for the year ended 31 March 2020 is provisionally scheduled for 31 July 2020 and further announcements will be made in this regard.

The financial information contained in this trading statement has not been reviewed or reported on by Tongaat Hulett's auditors.

Tongaat
24 June 2020

Sponsor:
Investec Bank Limited