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")

SUMMARISED CONSOLIDATED RESULTS
FOR THE SIX MONTHS ENDED 2 APRIL 2023

SHORT-FORM ANNOUNCEMENT

KEY FEATURES

- Group revenue +10.2% to R3.8 billion
- Regional revenue +9.5%
- International revenue +13.2%
- Group operating profit +43.2% to R346 million
- Group operating margin +220 bps to 9.2%
- Regional operating margin +260 bps to 8.9%
- International operating margin +700 bps to 10.4%
- Headline earnings +37.1% to R217 million
- Diluted headline earnings per share +37.5% to 82.9 cents

COMMENTARY

Trading and financial performance
Group revenue increased by 10.2% to R3.8 billion in the 26 weeks to 2 April 2023 (H1 2022: 27 weeks). Growth was driven by price inflation of 14.8% and strong trading performances by both the regional and in particular the international business in March.

Slower consumer spending and a competitive environment resulted in volume pressure in certain product categories, with total group volumes declining by 8.5% and negative mix changes of 0.8% for the six months. This was partially offset by foreign exchange gains which contributed 2.7% to revenue growth and acquisitive growth of 2.0% from the Today acquisition.

In the regional segment (South Africa and the rest of Africa), the primary focus has been on improving the operating margin through an effective balance of price and volume, while being conscious of price increases negatively impacting volumes due to the financial pressure facing consumers.

Negative volume growth is currently being experienced in all major categories in the regional business. However, the rate of volume decline of RFG products was slower than the market in comparable categories over the three months to end March 2023.

Revenue in the regional segment increased by 9.5%, with fresh foods revenue increasing by 11.8% and long life foods by 8.2%.

The pie category recovered from the sales and margin pressure in the prior period and delivered a strong all-round performance. The recovery was supported by the successful integration and turnaround in the Today business where price increases have brought the margin in line with the rest of the pie category.

Fruit juice, the largest long life category, was the main driver of revenue growth through market share gains. The dry foods and meat categories achieved good revenue growth despite significant price increases during the period.

Volumes in the canned fruit and vegetable categories remain under pressure from weak consumer demand, sustained cost pressures from high raw material and packaging costs as well as the competitive environment.

International revenue grew by 13.2% as the positive impact of strong international selling prices and the benefit of the weakening Rand were offset by a 10.4% decline in volumes. In the prior period, the group increased production volumes to meet the higher global demand following the failure of the Greek peach crop in 2021. The 14.4% weakening in the Rand against the basket of trading currencies contributed R92.0 million to international revenue.

The group's operating profit increased by 43.2% to R345.8 million with the operating profit margin improving by 220 basis points to 9.2%. The prior period included once-off costs of R23.6 million relating to the Today acquisition and insurance claim proceeds of R43.4 million for loss of profits during the Covid-19 lockdown.

Load shedding continues to impact production output and costs. The group has invested extensively in back-up generators over the past seven years and operational management teams have performed well in difficult circumstances to limit the impact of load shedding on factory efficiencies. Diesel costs to operate generators totalled R37.8 million for the six-month period. At the current levels of load shedding the average weekly diesel cost to operate generators amounts to approximately R2 million.

Regional operating profit increased by 54.2% to R272.9 million as the operating margin expanded from 6.3% to 8.9% through the recovery of higher input costs from customers in most product categories, particularly fruit juice, ready meals, dry foods and meat as well as the recovery in the pie category.

The operating profit for the international segment increased from R21.3 million to R72.9 million as the operating margin recovered from 3.4% to 10.4% which is in line with the targeted operating margin for the group. Profitability was supported by good export pricing in trading currencies across the product portfolio and the weakening of the Rand against the US dollar during the period.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 34.3% to R482.0 million, while the EBITDA margin strengthened by 230 basis points to 12.8%.

The group's interest expense increased by R9.6 million to R46.2 million owing to the 350 basis points increase in the prime lending rate over the past year.

Headline earnings increased by 37.1% to R216.8 million. Earnings per share increased by 37.0% to 83.3 cents, headline earnings per share by 37.7% to 83.2 cents and diluted headline earnings per share by 37.5% to 82.9 cents.

Net working capital increased by 13.7% to R2 239 million owing mainly to increased inventory levels and higher debtor days following the strong sales in the final month of the period. Inventory levels traditionally peak at the half year following the completion of the bulk of the deciduous fruit canning production and are expected to normalise over the balance of the financial year.

The group's net debt decreased by R19 million to R1 464 million and the debt-to-equity ratio reduced from 52.3% to 46.7%. The group repaid long-term loans of R188.6 million during the six-month period (2022: repaid loans of R38.7 million).

Capital expenditure of R143.5 million (H1 2022: R147.4 million) included expansion and replacement of pineapple plantations in Eswatini of R30.3 million.

The performance for the six months has ensured that the group continues to make good progress in delivering on its medium-term financial targets. Revenue grew by 10.2%, the operating profit margin improved by 220 basis points to 9.2% and the return on equity increased from 9.9% to 14.1%.

Outlook

Volumes in the regional business are expected to remain under pressure in the second half of the financial year due to the weak consumer spending environment.

While inflation has started to ease from the heights of the 2022 financial year, the group is still experiencing pressure from high packaging and raw material costs. Management is committed to maintaining its intense focus on price and volume management to further strengthen margins in the regional segment.

Current international pricing and demand for RFG's canned fruit products are expected to be maintained. However, the business expects to ship lower volumes in the second half relative to last year as production volumes reduce to historical levels following the increased production levels in the prior year to meet the higher global demand.

The international business is managed on a 12-month cycle owing to the seasonality of orders and shipping. Volumes in the first half of the year were impacted by the shift in the timing of export orders and shipments, and management expects inventory levels to normalise over the remainder of the year.

Capital expenditure of R280 million is planned for the full financial year, including new and replacement of existing generators in response to load shedding, R46 million for expansion and replacement of pineapple plantations in Eswatini, capacity expansion at the Western Cape ready meals, fruit juice and Aeroton pies and pastries facilities, and replacement of canning equipment and capacity expansion at the meat products factory.

RFG's renewable energy programme has been accelerated in response to the sustained levels of load shedding currently being experienced in the country. Solar installations at a further four production facilities are due for completion in the second half of the financial year and a further three in the 2024 financial year.

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

Pieter Hanekom
Chief Executive Officer

Tiaan Schoombie
Chief Financial Officer

Groot Drakenstein
24 May 2023

This 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/2023/jse/isse/RFG/Interim23.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.

Directors: Dr YG Muthien* (Chairperson), MR Bower* (Lead Independent Director), WP Hanekom (Chief Executive Officer), TP Leeuw*, S Maitisa*, SV Naidoo*^, BN Njobe*, CC Schoombie (Chief Financial Officer), CL Smart**, GJH Willis**

* Independent non-executive   **Non-executive   ^ Appointed 1 May 2023

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