Press Release

ASTRAL DELIVERS A SOLID PERFORMANCE DESPITE HEADWINDS AND EXTRAORDINARY COSTS

- Revenue increased by 4% to R13.5 billion (Sep 2018: R13.0 billion)
- Operating profit decreased by 55% to R882 million (Sep 2018: R1.9 billion)
- HEPS decreased by 55% to 1 674 cents (Sep 2018: 3 712 cents)
- Total dividend per share down 56% to 900 cents (Sep 2018: 2 050 cents)

18 November 2019: **Astral Foods Limited** (Astral), South Africa's leading integrated poultry producer reported its final results for the year ended 30 September 2019. Chris Schutte, CEO of Astral, commented: "Astral's earnings for the year under review were sharply down compared to a record profit in F2018. Substantially higher raw material costs leading to high feed prices, a 66% contribution to the total live cost of producing a broiler, together with lower poultry selling prices year-on-year, negatively impacted poultry margins."

He went on to say that besides a challenging market environment, Astral faced other headwinds during the reporting period, with the financial results for the reporting period impacted by extraordinary costs totalling R223 million. These included industrial action at its KwaZulu-Natal (KZN) poultry operations, widespread load shedding, impact of the minimum wage legislation as well as severe water supply interruptions at Goldi, its largest poultry processing facility based in Standerton (Lekwa Municipal District). Excluding these unfortunate costs, Astral would have reported one of its better financial years since listing.

Group revenue for the year increased by 4% to R13.5 billion from R13.0 billion (2018) and operating profit decreased by 55% to R882 million from a record R1 942 million (2018), resulting in a sharp decline in the operating profit margin to 6.5% (2018: 15.0%).

The **Poultry** division's revenue increased by 2.6% to R10.9 billion (2018: R10.6 billion) the bulk of which was derived from improved sales of broiler day-old chicks and parent stock in the external market, augmented with higher broiler sales volumes. Broiler slaughter volumes remained relatively flat despite production cutbacks as a result of the Standerton water crisis. Sales volumes increased by 2.6% (11 438 tons), largely due to sales out of stock in the second half of the reporting period.

Trading conditions remained weak for most of the year, as poultry imports remained high and consumer buying power was constrained. Deep cut promotional activity by retailers resulted in higher sales volumes over the second half of the reporting period, reducing stock to more acceptable levels. Broiler feed prices increased 7.7% due to higher raw material costs for the reporting period. On-farm bird performance during the period was in line with expectations, and an improvement in the feed conversion efficiency at a broiler level was achieved. This benefit slightly offset the higher feed prices seen during the year.

Operating profit for the Poultry division decreased by 74.5% to R371 million (2018: R1 453 million). Non-feed expenses in the division increased year-on-year, negatively impacted by amongst others the water supply interruptions to Goldi in Standerton during the period under review (at a cost of R93 million), with the operating profit margin reducing to 3.4% (2018: 13.7%).

Revenue reported by the **Feed** division increased by 6.1% to R6.6 billion (2018: R6.2 billion) as a direct result of higher selling prices on the back of an increase in raw material costs. Volumes decreased by 3.3% due to lower inter-group volumes of 3.0% as a result of an improvement in the feed conversion ratio, as well as lower external volumes of 3.7% as livestock sectors came under pressure from higher feed costs. The split between internal and external feed sales volumes remained at 60:40 for the year under review.

Operating profit increased by 7.2% to R489 million (2018: R457 million) with the operating profit margin remaining flat at 7.4% (2018: 7.4%). Rand per ton margins increased relative to the prior year. Expense increases were contained to 5.9% year-on-year across all feed mills. Efficiencies from the Standerton feed mill again supported the group's focused efforts towards continuous poultry live cost improvement.

Local maize prices increased significantly on the back of a below average South African maize harvest with lower yields due to late rainfall for the 2019 season. To an extent feed price increases were curbed with imports of maize into the Western Cape at favourable pricing levels compared to local SAFEX prices.

The revenue contribution from the **Other Africa** division increased by 16.8% to R480 million (2018: R411 million) due to higher selling prices and sales volumes increasing by an average of 8.3% across all countries, with the operating profit decreasing to R22 million (2018: R32 million). Profits were impacted by a significant increase in feed costs in Zambia on the back of a devastating drought and crop failure in that country for the 2019 harvest season, resulting in a margin squeeze in a highly competitive market. A provision for the expected non-recovery of various taxes owing by the Mozambican government was provided for, negatively impacting the division's performance. The results in Zambia and Mozambique were countered by a good performance from Swaziland.

Daan Ferreira, Astral's CFO, said: "The Group's major capital expansion programme announced last year will increase Astral's poultry production capacity by an estimated 16% on current production levels, with an approved capital expenditure amount of R0.9 billion. The KZN project has been postponed due to the country's weak economic growth prospects and market conditions within the poultry sector. Astral continues to deliver strong cash flows, with reported surplus cash on hand of R555 million as at 30 September 2019. The final dividend for the year is 425 cents per share, bringing the total dividend for the year to 900 cents per share."

Astral is expecting raw material prices to remain high over the first half of the next financial year. The outlook for the 2020 harvest season forecasts higher planting intentions for maize acreage, and this together with improved prospects for seasonal rainfall could result in an above average crop, which will benefit feed input costs for the second half of the 2020 financial year.

External factors such as increasing levels of unemployment, poor economic growth and the weak purchasing power of the consumer will continue to place pressure on poultry selling prices. This is exacerbated by the high levels of poultry imports from Brazil and the USA, which will continue unabated in the absence of adequate tariff measures. Proactive engagement from the new Ministers in the DTI and DAFF with the poultry industry, is expected in line with the Poultry Sector Master Plan, Schutte said.

Schutte concludes: "The municipal infrastructure deterioration in Standerton and its impact on Astral's operations will add a cost burden to the business until a more permanent solution is implemented. Despite the many challenges being faced by the group, we continue to invest capital to support our strategy, namely to be the best cost integrated poultry producer in South Africa."

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Company background

Astral Foods Limited (Astral), a leading South African integrated poultry producer, with key activities in animal feed pre-mixes, manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, with integrated breeder and broiler production operations, abattoirs as well as sales and distribution of various key poultry brands. The brands in the Astral stable include:

- County Fair
- Festive
- Goldi
- Mountain Valley
- Supa Star
- Ross Poultry Breeders
- National Chicks
- Meadow Feeds
- Tiger Animal Feeds
- Tiger Chicks
- Mozpintos
- CAL Labs