Lafarge Cement Zimbabwe Limited

Q1, 2022 Trading Update

I am delighted to present the Quarter 1, 2022 Trading Update for Lafarge Cement Zimbabwe Limited (the Company) for the period January 2022 to March 2022.

TRADING ENVIRONMENT

The quarter saw the country operating under more relaxed Covid-19 lockdown measures compared to the prior year. As a result, the environment was good for business as it allowed for increased trading hours and a gradual return to the office by employees who had been working remotely. The convergence of rising commodity prices due to the Russia-Ukraine conflict, rising local inflation and a widening gap between the official and alternative market foreign exchange rates have all continued to undermine economic recovery from the Covid-19 induced effects and weather shocks.

The economic environment benefited from relatively lower inflation. In spite of the favourable development on inflation, the environment remained hyperinflationary and the quarter witnessed increasingly challenging business conditions. The year-on-year inflation for the quarter averaged 66.5% compared to 207.6% for the prior year period. During the quarter, the Zimbabwe Dollar (ZWL) depreciated by 31% against the USD from a closing rate of 110.29 on the auction market as at 31 December 2021 to a closing rate of 142.42 as at 31 March 2022. While power supply remains a challenge affecting the country in general, there was a noticeably improved supply of power to our operations even though unscheduled outages were still experienced on some occasions.

VOLUME & FINANCIAL PERFORMANCE

The company saw a cement volume decline of 55% versus the same period last year. This is attributable to the startup mode as the cement mills were restarted in February following the collapse of the cement mill house roof in October 2021. In addition, one of the existing cement ball mills was decommissioned to make way for the installation of the new Vertical Roller Mill (VRM) that will double the company's capacity after commissioning in Q2. The company's Dry Mortars volumes fell by 23% compared to the same period last year.

This is attributed to the suppressed cement availability post the cement mill house roof collapse in October 2021 as cement is a key input in Dry Mortar products. The company is confident that volumes will recover and grow as the availability of cement stabilises, especially after the new VRM start-up in Q2. The overall market demand continues to grow driven by the segment of individual home builders as well as the ongoing major government infrastructure development projects. Despite the adverse impact of the cement mill house roof collapse on cement volumes, the company's historic revenue grew by 36% versus the same period last year and declined by 18% on inflation adjusted performance.

KEY ISSUES AFFECTING THE BUSINESS

The company continues to face challenges in securing foreign currency for the timely replacement of critical spares that are sourced off-shore. Foreign currency allocations through the auction market have been significantly below the company's requirements. As a result, foreign currency obligations have become increasingly difficult to meet and sustain. In addition, the October 2021 cement mill house roof collapse adversely impacted sales resulting in pressure on cash flows. The company faced significant liquidity challenges that hindered it from fully meeting its cash obligations. This affected business operations resulting in unplanned downtime and, in some cases, the shortage of materials to keep the plant running. It is pleasing to note that cement production is getting back to normal and will further be improved by the impending new VRM start up. The temporary stoppage in production resulted in a backlog of pre-paid orders that needed to be satisfied before the resumption of normal market supplies. Whilst the roof repairs were taking place, the company continued to produce clinker, manufacture Dry Mortars and expand the retail franchise code-named Binastore.The company has continued to review product pricing to keep up with the rapidly increasing cost of inputs such as fuel, energy and transport.

The COVID-19 pandemic continues to present new dynamics as new waves of mutated strains are being predicted. The business undertook a voluntary vaccination drive which realised an 87% uptake among employees by March 2022. The company maintains strict prevention protocols and continuous risk-based testing as part of its case management regime. No business disruptions have thus been attributed to the COVID-19 pandemic.

OUTLOOK

Following completion of the restoration of the cement mill house roof, volumes are expected to recover to levels comparable to prior periods. In addition, the company is in the process of commissioning the new VRM whose expected start-up in Q2 will double the company's cement production capacity and improve the availability of raw material to the new DMO plant. The launch of the VRM will reposition the company on a growth trajectory into the future which will have a positive impact on the company's revenue generation and profitability. The Board is encouraged by the positive trajectory of the economy and anticipates that collaborative dialogue between Government, industry and other stakeholders will be maintained in order to restore and safeguard business confidence as well as preserve value and restore macroeconomic stability. The company continues to uphold the highest standards of health and safety through a robust framework of policies and programmes which are tailored to achieve zero harm in its operations. It will continue to uphold Covid-19 protocols in order to safeguard the health and safety of its staff and stakeholders.

By order of the Board

Geoffrey Ndugwa
Chief Executive Officer

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