Astral

2023

Unaudited Interim Results

for the six months ended 31 March 2023

Astral Foods Limited Incorporated in the Republic of South Africa | Registration number: 1978/003194/06
Share code: ARL | ISIN: ZAE000029757 | ("Astral" or "the Company")

KEY INDICATORS

Revenue	↑	6%
Operating profit	↓	89%
Earnings per share	↓	89%
Headline earnings per share	↓	88%
Net cash outflow	↓	R1.2 billion
No interim dividend declared	↓	100%

COMMENTARY

for the six months ended 31 March 2023

FINANCIAL OVERVIEW

The Group reported revenue growth to R10.0 billion (March 2022: R9.4 billion) representing a 5.7 % increase for the period under review, under an extremely trying operational environment. This increase was largely as a result of higher feed prices on soaring raw material costs and poultry selling prices were adjusted in an attempt to recover some of the large cost burdens the Group has been forced to carry as a result of load shedding and the failing municipal infrastructure at large.

The Group's operating profit declined by 88 % to R98 million (March 2022: R785 million) including R741 million load shedding costs incurred during the reporting period, and which could not be recovered from the market.

The Group's operating margin remained marginally positive at 1.0 % (March 2022: 8.3 %). The Poultry Division, and more particularly the broiler operations which saw major production disruptions caused by load shedding, decimating all economy of scale benefits and operational efficiencies, being the cornerstones of Astral's best-cost strategy.

As a result, the Poultry Division incurred a loss of R283 million (March 2022: R466 million profit) exacerbated by high feed input costs for the period under review.

The Feed Division increased operating profits to R381 million (March 2022: R296 million) on the back of a growth in internal sales volumes and the recovery of raw material costs under strained market conditions across all the livestock sectors.

Net finance costs of R14 million, which include finance charges on leased assets, were lower than the comparative period as a result of the right-of-use liabilities being materially lower due to negotiated cost savings. Interest received on surplus funds was lower due to the Group moving into an overdraft position during the period under review.

Capital expenditure for the current period at R190 million includes R90 million spent on critical electricity generating capacity at the processing plants. The Group has deferred all non-critical capital expenditure until the health of the balance sheet has been restored.

The Group's inventory levels at 31 March 2023 were higher than planned due to a slowdown in the demand for Astral's product basket (impacted by load shedding), together with the increased valuation of the biological assets due to higher feed prices and older broilers on farms. The trade receivables increase reflects the revenue growth and remains well managed. Net working capital is higher than ideal mainly as a result of the higher than planned inventory levels. Net working capital expanded by R705 million during the period under review.

A net cash outflow amounting to R1.2 billion for the period is reported, and includes R741 million load shedding costs and a R705 million increase in working capital requirements.

The Group's balance sheet has been weakened as the business battled excessive and unrecoverable costs imposed by macro conditions, whilst the consumers' ability to purchase a decent food basket has come under severe pressure. The Group's net surplus cash position of R701 million at 30 September 2022 was utilised, and closed on 31 March 2023 with an overdraft against the general banking facilities of R506 million.

OPERATIONAL OVERVIEW

Poultry Division

Revenue for the Poultry Division increased by 3.0 % to R8.2 billion (March 2022: R7.9 billion), driven by broiler selling prices which were increased in an endeavour to recover the rapidly escalating costs in poultry feed (up 28.9 % for the period under review on record high local coarse grain prices), and costs (such as diesel) attached to the negative impact caused by load shedding. Broiler sales volumes decreased for the period under review as demand for Astral's poultry products slowed on a change in the product basket given the impact of load shedding disrupting the poultry processing mix, with lower sales into the Quick Service Restaurant sector, coupled with lower fresh chicken sales as a proportion of the total basket.

Broiler sales volumes decreased by 10.6 % (28 177 tons). Broiler volumes processed for the period under review reduced by 16.9 %, equating to an average of 4.9 million birds per week compared to an average of 5.8 million birds in the prior period. However, total broiler weight slaughtered reduced by only 1.5 % for the period as heavier broilers were processed on the back of the load shedding impact. During the six months ended 31 March 2023, Astral cut back production by 24.9 million broilers which were sold as either live birds or through reduced broiler placements, in an effort to manage the backlog in the slaughter programme, as load shedding hampered the ability of the Group's poultry processing facilities to slaughter.

Notwithstanding the effort to increase poultry selling prices, the price levels fell way short of what was required to recover the higher input costs for feed, diesel, energy, wages and overtime. Of these costs feed was the largest contributor, which saw not only an escalation in the price for poultry feed, but significantly higher levels of feed being required to sustain the birds on farm as a direct result of load shedding which impacted the Group's ability to process all the bird volumes, leading to older and heavier birds consuming more feed.

A significant change in the broiler feeding programme was implemented at both Goldi and Festive, where maintenance feeding diets were added to control the growth of the broilers as the older and heavier birds on farm significantly impacted the ability of the processing plants to slaughter them. The capacity to process the older and heavier birds was further hampered during the period by ongoing load shedding at higher stages, together with major disruptions in water supply. As a consequence of all of the above, broiler production efficiencies on farm were severely impacted.

Diesel generators were commissioned at the Goldi processing facility in Standerton on 12 December 2022, and at the Festive processing facility in Olifantsfontein on 19 February 2023.

A negative broiler margin for the period under review of -4.4% is reported (March 2022: 4.7%), which reflects costs in the broiler operations that could not be recovered through poultry selling prices. The operating profit for the Poultry Division decreased by 160.6% to a loss of R283 million (March 2022: a profit of R466 million).

Total poultry imports for the period under review increased from a low of 17 730 tons in October 2022 to 45 691 tons in March 2023.

Feed Division

Revenue for the Feed Division increased by 37.4% to R6.4 billion (March 2022: R4.7 billion) as a direct result of higher selling prices on the back of significant increases in raw material costs. SAFEX yellow maize prices increased to an average of R4 677 per ton for the period under review (March 2022: R3 773 per ton).

Sales volumes increased by 10.2% (73 179 tons) for the period under review on the higher internal feed sales (up 21.1%) required by the Poultry Division. This is due to the higher levels of feed consumption of the older and heavier birds on farm as a result of load shedding as previously explained. External feed sales decreased by 6.0% as the pig and table egg production sectors came under tremendous pressure on higher feed costs and lower selling prices.

The operating profit for the division increased by 28.5% to R381 million (March 2022: R296 million), with a decrease in the operating profit margin to 5.9% as a result of the increase in the revenue line on higher raw material costs and the resultant increase in feed selling prices (March 2022: 6.3%). Operating expenses in the division were well controlled despite load shedding costs.

Other Africa Division

As previously reported the sale of the National Chicks Swaziland and Mozambican operations was completed in 2022. As a result, only the Zambian feed and poultry operation remains within the "Other Africa Division" segment, and as such a decision has been taken to consolidate these results into the Feed and Poultry Divisions reporting above.

For transparency an operating profit of R37.7 million (March 2022: R45.4 million) has been consolidated into the Feed and Poultry Divisions. Segmental reporting for the "Other Africa Division" has thus fallen away.

OUTLOOK

The following factors are considered by management to have an impact on the near future business and poultry sector prospects. The outlook has been split into those factors representing the macro-environment and those factors representing Astral's operating environment.

Macro-environment

- In the lead up to the 2024 national elections a period of political instability is expected, as well as both policy uncertainty and poor service delivery from Government.
- The macro-economic crisis in the country with negligible to no economic growth is hampering any prospects for job creation, with disposable income under severe pressure as the cost of living crisis deepens and a recession looms large.
- Failing infrastructure and the lack of service delivery from a "Government that is asleep at the wheel" is placing a massive cost burden on businesses and the consumer alike.
- The dramatic demise of Eskom in the generation and distribution of electricity, of Water Affairs and the failing water supply networks, together with the disastrous state of Transnet, have destroyed the capacity of the agricultural sector to function efficiently and has hence become globally cost uncompetitive.
- The continuous costly disruptions to Agri-processing businesses and the integrated food production value chains, have left South Africa with deepening hunger and poverty levels especially amongst the most vulnerable of communities, and an even greater threat to food security is plausible.

Operational environment

- Astral's second half reporting period will reflect a "half of two halves", with costly actions to counter the impact of load shedding and water supply disruptions realising in distinctly different financial results for Quarter 3 versus Quarter 4.
- Broiler placements will be aligned with market demand and expected sales into a normalised product mix for Quarter 4.
- Broiler biological efficiencies to return to normal from July onwards, with particular reference to age, live weight and feed consumption.
- Raw material costs will reduce from Quarter 4 onwards as Astral's forward position and procurement strategy capitalises on reducing coarse grain prices both locally and globally, however still somewhat hampered by the weaker local currency.
- A significant diesel cost has been forecast into the cost base for Stage 6 load shedding, representing approximately R45 million per month.
- All capital expenditure has been placed on hold except that required for necessary maintenance and emergency measures in electricity and water supply.
- Astral will focus on rebuilding its balance sheet over the new reporting period in F2024, which as in the past has provided resilience to the cyclical nature of the poultry sector.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2023

	Unaudited six months ended 31 March 2023 R'000	% change	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
Revenue	9 963 795	5.7	9 427 269	19 333 850
Cost of sales	(8 577 872)		(7 334 652)	(15 310 513)
Gross profit	1 385 923	(33.8)	2 092 617	4 023 337
Administrative expenses	(409 931)		(538 886)	(944 950)
Distribution costs	(762 555)		(668 552)	(1 412 646)
Marketing expenditure	(150 991)		(150 155)	(292 252)
Gain on disposal of equity interest in subsidiary	–		22 720	28 908
Other net income and gains	35 601		27 582	37 381
Operating profit (note 4)	98 047	(87.5)	785 326	1 439 778
Net finance costs	(14 473)		(16 536)	(14 706)
Finance income	5 422		7 052	29 412
Finance costs	(19 895)		(23 588)	(44 118)
Profit before tax	83 574	(89.1)	768 790	1 425 072
Tax expense	(21 537)		(221 930)	(370 456)
Profit for the period from continuing operations	62 037	(88.7)	546 860	1 054 616
Profit for the period from discontinued operations	–		14 979	15 960
Profit for the period	62 037	(89.0)	561 839	1 070 576
Other comprehensive income for the period, net of tax				
Items that may be subsequently reclassified to profit or loss				
Foreign currency (loss)/gain on investment loans to foreign subsidiaries	(159)		(1 098)	878
Foreign currency translation (loss)/gain	(50 492)		(14 400)	43 254
Items that will not be reclassified to profit or loss				
Remeasurement of post-employment benefit obligations	–		–	4 807
Transactions with minorities	–		(1 480)	(1 480)
Changes in the fair value of equity instruments	(6 256)		(12 708)	(11 144)
Total comprehensive income for the period	5 130	(99.0)	532 153	1 106 891
Profit attributable to:				
Equity holders of the holding company, arising from:	62 037	(88.9)	559 660	1 068 397
– Continuing operations	62 037	(88.7)	546 860	1 054 616
– Discontinued operations	–		12 800	13 781
Non-controlling interests	–		2 179	2 179
Profit for the period	62 037	(89.0)	561 839	1 070 576
Comprehensive income attributable to:				
Equity holders of the holding company, arising from:	5 130	(99.0)	529 974	1 104 712
– Continuing operations	5 130	(99.0)	517 174	1 090 931
– Discontinued operations	–		12 800	13 781
Non-controlling interests	–		2 179	2 179
	5 130	(99.0)	532 153	1 106 891
Earnings per share (cents)				
Basic	162	(88.9)	1 456	2 781
– Continuing operations	162		1 422	2 745
– Discontinued operations	–		33	36
Diluted	160	(88.9)	1 441	2 751
– Continuing operations	160		1 408	2 716
– Discontinued operations	–		33	35
Headline earnings per share (cents)				
Basic	163	(88.5)	1 420	2 762
– Continuing operations	163		1 386	2 726
– Discontinued operations	–		33	36
Diluted	162	(88.5)	1 405	2 733
– Continuing operations	162		1 372	2 697
– Discontinued operations	–		33	35

CONDENSED CONSOLIDATED BALANCE SHEET

as at 31 March 2023

	Unaudited six months ended 31 March 2023 R'000	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
Assets			
Non-current assets	**3 571 678**	3 548 833	3 548 443
Property, plant and equipment	**3 059 134**	2 917 119	3 002 712
Intangible assets	**43 842**	46 865	41 947
Right-of-use assets	**258 401**	355 847	288 817
Goodwill	**120 536**	136 135	120 536
Financial assets at fair value through other comprehensive income	**89 765**	92 867	94 431
Current assets	**5 435 312**	4 573 399	4 889 866
Biological assets	**1 525 943**	988 908	1 245 888
Inventories	**1 851 268**	864 927	1 178 496
Trade and other receivables	**1 821 047**	1 809 336	1 708 292
Current tax asset	**66 208**	1 073	33 840
Cash and cash equivalents	**170 846**	909 155	723 350
Assets classified as held-for-sale	**–**	17 196	–
Total assets	**9 006 990**	8 139 428	8 438 309
Equity			
Capital and reserves attributable to equity holders of the parent company	**4 571 825**	4 508 355	4 786 007
Issued capital	**90 400**	90 400	90 400
Treasury shares	**(262 830)**	(277 464)	(277 464)
Reserves	**4 744 255**	4 695 419	4 973 071
Total equity	**4 571 825**	4 508 355	4 786 007
Liabilities			
Non-current liabilities	**1 113 381**	1 152 529	1 136 161
Deferred tax liability	**806 367**	738 889	777 830
Employment benefit obligations	**130 772**	130 551	127 029
Lease liability	**176 242**	283 089	231 302
Current liabilities	**3 321 784**	2 478 544	2 516 141
Trade and other liabilities	**2 319 544**	2 131 173	1 966 500
Employment benefit obligations	**201 172**	216 891	425 840
Current tax liabilities	**15 041**	23 202	19 825
Lease liability	**105 618**	104 158	78 371
Borrowings	**677 052**	–	22 332
Shareholders for dividend	**3 357**	3 120	3 273
Liabilities classified as held-for-sale	**–**	–	–
Total liabilities	**4 435 165**	3 631 073	3 652 302
Total equity and liabilities	**9 006 990**	8 139 428	8 438 309

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 March 2023

	Unaudited six months ended 31 March 2023 R'000	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
Cash operating profit	**33 521**	987 748	1 905 735
– From continuing operations	**33 521**	964 961	1 887 992
– From discontinued operations	**–**	22 787	17 743
Changes in working capital	**(704 561)**	89 001	(413 382)
Cash (utilised)/generated from operating activities	**(671 040)**	1 076 749	1 492 353
Income tax paid	**(26 854)**	(145 637)	(294 454)
Cash flows from operating activities	**(697 894)**	931 112	1 197 899
Cash used in investing activities	**(184 335)**	(37 561)	(179 189)
Purchases of property, plant and equipment	**(185 203)**	(90 368)	(280 271)
Costs incurred on intangibles	**(4 569)**	(72)	(564)
Proceeds on disposal of property, plant and equipment	**15**	458	478
Finance income	**5 422**	7 437	29 650
Dividend received from investment	**–**	–	1 564
Net proceeds from disposal of equity interest in subsidiary (note 9(c))	**–**	44 984	69 954
Cash flows to financing activities	**(285 574)**	(254 496)	(612 817)
Dividends paid to the Company's shareholders	**(229 034)**	(153 513)	(456 692)
Dividends paid to non-controlling shareholders	**–**	(1 055)	(1 055)
Finance expense	**(2 196)**	(1 733)	(4 993)
Treasury shares acquired in terms of Forfeitable Share Plan	**(13 279)**	(26 831)	(26 831)
Proceeds on sale of shares forfeited in terms of the Forfeitable Share Plan	**11 744**	–	–
Transactions with minorities	**–**	(1 480)	(1 480)
Lease payments – principal element	**(39 542)**	(52 079)	(89 661)
Finance cost on lease contracts	**(13 267)**	(17 805)	(32 105)
Net movement in cash and cash equivalents	**(1 167 803)**	639 055	405 893
Effects of exchange rate changes	**(39 421)**	(11 027)	13 998
Cash and cash equivalent balances at beginning of year (including disclosed as assets held-for-sale)	**701 018**	281 127	281 127
Cash and cash equivalent balances at end of period (note 6)	**(506 206)**	909 155	701 018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2023

	Unaudited six months ended 31 March 2023 R'000	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
Balance beginning of period	**4 786 007**	4 161 191	4 161 191
Profit for the period			
– Continuing operations	**62 037**	546 860	1 054 616
– Discontinued operations	**–**	14 979	15 960
Dividends to shareholders	**(226 074)**	(153 587)	(456 919)
Dividends to non-controlling shareholders	**–**	(1 055)	(1 055)
Other comprehensive loss for the period, net of tax, from continuing operations	**(56 907)**	(29 686)*	36 315
Other comprehensive loss for the period, net of tax, from discontinued operations	**–**	–	(13 438)
(Decrease)/increase in share-based payment reserve	**(7 872)**	9 922	16 168
Disposal of restricted shares at cost in terms of forfeitable share incentive scheme	**27 913**	–	–
Transfer of non-controlling interest to retained earnings on disposal of subsidiary	**–**	(13 438)	–
Restricted shares acquired in terms of forfeitable share incentive scheme	**(13 279)**	(26 831)	(26 831)
Balance at end of period	**4 571 825**	4 508 355	4 786 007

CONDENSED CONSOLIDATED SEGMENTAL ANALYSIS

for the six months ended 31 March 2023

	Unaudited six months ended 31 March 2023 R'000	% change	Unaudited six months ended 31 March 2022 Restated R'000	Unaudited 12 months ended 30 September 2022 Restated R'000
Revenue				
Poultry	**8 160 755**	3.0	7 919 943	15 963 172
Feed	**6 425 349**	37.4	4 676 308	10 386 879
Inter-group	**(4 622 309)**		(3 168 982)	(7 016 201)
From continuing operations	**9 963 795**	5.7	9 427 269	19 333 850
From discontinued operations	**–**		94 574	125 795
Operating (loss)/profit				
Poultry	**(282 665)**	(160.6)	466 326	801 453
Feed	**380 712**	28.5	296 281	625 016
Impairment of goodwill	**–**		–	(15 599)
Corporate (disposal of controlling equity interest in subsidiary)	**–**		22 720	28 908
From continuing operations	**98 047**	(87.5)	785 326	1 439 778
From discontinued operations	**–**		17 105	17 743
Depreciation, amortisation and impairment				
Poultry	**92 706**	(2.1)	94 698	183 554
Feed	**13 388**	5.5	12 685	27 103
Corporate	**189**		178	366
From continuing operations	**106 283**	(1.2)	107 561	211 023
From discontinued operations	**–**		1 357	1 701

Restatement of segment report

The Group's segment report has been restated to account for the reorganised structures after the disposal of the Swaziland and Mozambique businesses. Tiger Animal Feeds has been absorbed into the Feeds Division and Tiger Chicks into the Poultry Division. All comparatives are accounted for on the similar basis after the restatement.

NOTES

for the six months ended 31 March 2023

1. Nature of business

Astral is a leading South African integrated poultry producer. Key activities consist of manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, integrated breeder and broiler production operations, abattoirs and sale and distribution of various key poultry brands.

2. Basis of preparation

The condensed consolidated interim financial statements for the six months ended 31 March 2023 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34: *Interim Financial Reporting,* Financial Pronouncements as issued by Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and the South African Companies Act (2008). These condensed consolidated interim financial statements have been prepared under the supervision of the financial director, JAI Ferreira CA(SA).

The condensed consolidated interim financial statements have not been reviewed or audited by the Group's auditors.

3. Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements comply with IFRS and are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 30 September 2022, except for the changes in accounting in the Segmental Report as outlined in note 9.

	Unaudited six months ended 31 March 2023 R'000	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
4. Profit before interest and tax			
The following items have been accounted for in the profit before interest and tax:			
Biological assets – fair value loss/(gain)	**509**	(1 489)	(3 306)
Amortisation of intangible assets	**2 485**	3 169	5 740
Depreciation on property, plant and equipment	**103 798**	104 392	205 283
Amortisation of right-of-use asset	**42 397**	54 166	95 738
Profit/(loss) on sale of property, plant and equipment	**933**	(1)	2 719
Foreign exchange (gains)/losses	**(14 421)**	(2 963)	9 547
Dividend received from investments	**–**	(2 143)	(1 564)
Insurance recoveries	**(486)**	–	(38 965)
Assets scrapped	**–**	–	2 927
5. Reconciliation to headline earnings			
Net profit attributable to shareholders	**62 037**	559 660	1 068 397
Profit on disposal of subsidiary (net of tax)	**–**	(13 891)	(26 941)
Impairment of goodwill	**–**	–	15 599
Loss on sale of property, plant and equipment (net of tax)	**686**	2	1 957
Loss on assets scrapped (net of tax)	**–**	–	2 281
Headline earnings for the period	**62 723**	545 771	1 061 293
6. Cash and cash equivalents per cash flow statement			
Bank overdrafts (included in current overdraft borrowings)	**(677 052)**	–	(22 332)
Cash at bank and in hand	**170 846**	909 155	723 350
Net (overdraft)/cash and cash equivalents per cash flow statement	**(506 206)**	909 155	701 018

	Unaudited six months ended 31 March 2023 R'000	Unaudited six months ended 31 March 2022 R'000	Audited 12 months ended 30 September 2022 R'000
7. Commitments			
Capital expenditure approved not contracted	**361 195**	142 167	590 589
Capital expenditure contracted not recognised in the balance sheet	**240 693**	298 065	146 782
Cost of intangibles contracted but not yet recognised in the financial statements	**–**	–	–
Raw material contracted amounts not recognised in the balance sheet	**2 721 680**	1 259 262	2 079 376
8. Additional information			
Dividends per share (cents) – declared out of earnings for the period			
– Interim dividend	**–**	790	790
– Final dividend	**–**	–	590
– Total dividend	**–**	–	1 380
Number of ordinary shares			
– Issued net of treasury shares	**38 396 563**	38 396 563	38 396 563
– Weighted-average	**38 374 062**	38 444 643	38 420 537
– Diluted weighted-average	**38 833 658**	38 833 658	38 833 658

9. Restatement of comparative financial information

The comparative financial information in the segment report has been restated to comply with the requirements of IFRS 8 whereby the "Rest of Africa" segment has now been incorporated into the Poultry and Feeds segments subsequent to the disposal of the Mozambique operations and the Swaziland subsidiary during the previous financial year. Accordingly, the disclosures in the segment analysis demonstrate the updated financial information of the Group's operating segments and are realigned to the information used by the CODM to manage the Group.

10. Events occurring after the reporting period

No events took place between half year-end and the date of issue of these financial statements that would have a material effect on the financial statements as disclosed.

CORPORATE INFORMATION

Registered office
92 Koranna Avenue
Doringkloof
Centurion
0157
South Africa

Postnet Suite 278
Private Bag X1028
Doringkloof
0140

Telephone: +27 (0) 12 667 5468

Transfer secretaries
Computershare Investor Services (Pty) Ltd
PO Box 61051
Marshalltown
2107
Telephone : +27 (0) 11 370 5000

Website address
www.astralfoods.com

Directors
Dr T Eloff (Chairman)
CE Schutte * (Chief Executive Officer)
GD Arnold*
DD Ferreira* (retired as Chief Financial Officer on 2 February 2023)
JAI Ferreira* (appointed Chief Financial Officer 2 February 2023)
FG van Heerden*
DJ Fouche
S Mayet
WD Potgieter
TM Shabangu
AD Cupido
* *Executive director*

Company Secretary
L Marupen

Sponsor
Nedbank Corporate and Investing Banking, a division of Nedbank Limited

Astral