



## Final Results Press Release

### ASTRAL POSTS SATISFACTORY RESULTS UNDER TOUGH MARKET CONDITIONS

- Revenue increased by 5% to R14.1 billion (2019: R13.5 billion)
- Operating profit decreased by 5% to R838 million (2019: R882 million)
- Headline earnings per share of R14.41 (2019: R16.74)
- Final dividend per share declared of R7.75

**16 November 2020: Astral Foods Limited** (Astral), South Africa's leading integrated poultry producer, reported its results for the year ended 30 September 2020. Operating profit was up by 8.5% at the interim reporting period, whilst the second half echoes the impact of the Covid-19 pandemic and six months of a country under lockdown. Chris Schutte, CEO of Astral, commented: *"We continued to execute our simple yet resilient strategy, which once again assisted the Group in navigating through new challenges brought on by the Covid-19 pandemic. Astral can proudly report satisfactory results, with all its integrated operations continuing to run like clockwork during South Africa's hard lockdown."*

The lockdown severely disrupted the lives of all South Africans, and together with it, the complete closing of the hospitality, restaurant and Quick Service Restaurant (QSR) sectors for an extended period of time. Poultry producers that supply these markets were found overnight with surplus chicken, and, as a result, had to channel this excess into various frozen categories. The resulting oversupply led to a stock build in the industry and later culminated in aggressive price cutting in the market to clear these stock levels.

At the same time, substantially higher raw material costs driven by a weaker local currency, weather concerns on the international grain markets, higher global coarse grain prices and increased demand from China led to higher feed prices in the second half of Astral's financial year. Higher feed costs, which have a 65% contribution to the total live cost of producing a broiler, together with lower poultry selling prices resulted in a steep decline in poultry margins during the second half of the year under review.

Besides a challenging market environment, Astral continued to face other headwinds during the reporting period, with the financial results impacted by a number of extraordinary costs, amongst these; direct costs associated with Covid-19, widespread load shedding and continued municipal infrastructure challenges in Standerton (Lekwa Municipal District).

On a positive note, Astral completed its largest capital project, to date, with the expansion of its Festive poultry processing plant, increasing its capacity in Olifantsfontein by 16% or 800 000 birds per week. This expansion forms part of the pledge made by Astral as part of the Poultry Sector Master Plan, to support volume growth in the industry as well as ensure that local production makes up a higher component of chicken consumption into the future.

Group revenue for the reporting period increased by 4.6% to R14.1 billion (2019: R13.5 billion) supported by an increase in breeder revenue (Ross Poultry Breeders and National Chicks), together with an increase in the Feed Division's external turnover due to higher feed prices for the year under review. Operating profit decreased by 5.0% to

R838 million off a very difficult 2H2020, resulting in an operating profit margin of 5.9% (2019: 6.5%).

Revenue for the **Poultry Division** increased by 4.3% to R11.3 billion (2019: R10.9 billion) supported by higher broiler sales realisations whilst sales volumes remained flat, together with improved sales of broiler day-old chicks and parent stock in the external market.

Broiler slaughter volumes increased by 3.5% benefiting from four weeks of the Festive expansion volumes before these were withdrawn in response to the impact that the Covid-19 related lockdown had on the market. In addition, production cutbacks on the back of the Standerton water crisis in the prior year had a negative impact on that period. Sales volumes decreased by 0.2% for the year under review (1 026 tons).

Trading conditions reflected a distinct difference between the two halves of the financial year. The hard lockdown implemented from 26 March 2020 had a significant impact on the South African poultry market. The complete shutdown of hospitality services, restaurants and QSR, accounting for 20% of local poultry consumption, together with slower fresh sales, led to a substantial oversupply of chicken in the frozen categories.

Broiler feed prices increased by 7.7% versus the prior year due to higher raw material costs, negatively affecting Astral's earnings for the full year. Feed cost remains the key driver of profitability, representing approximately 65% of the live cost of a broiler. A further improvement in the feed conversion efficiency of the broilers, partially offsetting the higher feed prices experienced during the year.

Operating profit for the Poultry Division decreased by 20.5% to R295 million (2019: R371 million). Non-feed expenses in the division increased year-on-year, negatively impacted by the direct cost of Covid-19 (R39 million), as well as water and electricity supply interruptions during the year under review (at a cost of R62 million), with the operating profit margin reducing to 2.6% (2019: 3.4%).

Revenue for the **Feed Division** increased by 6.2% to R7.0 billion (2019: R6.6 billion) as a direct result of higher selling prices on the back of the increase in raw material costs. SAFEX yellow maize prices increased to an average of R2 748 per ton for the year under review (2019: R2 639 per ton) up R109 per ton year-on-year. Soya meal prices also increased from an average of R5 727 per ton in F2019 to R 6 617 per ton in F2020, further exacerbating the price of feed.

Feed sales volumes in the division decreased marginally by 0.7%, as the internal requirement for broiler feed decreased by 1.5% due to an improved broiler feed conversion rate, with higher external sales volumes of 0.7% reported due to increased feed sales to the ruminant sector, despite all livestock markets coming under pressure from higher feed prices.

The operating profit for this division increased by 3.8% to R508 million (2019: R490 million), with a decrease in the operating profit margin to 7.3% (2019: 7.4%). Net Rand per ton margins increased year-on-year with the division benefitted from containing total operating expenses (excluding the raw material cost impact) to an increase of 1.5% year-on-year, as well as from effective raw material cost recoveries. The direct cost of Covid-19 to the Feed Division was R2 million.

Revenue from the **Other Africa** division increased by 0.6% to R482 million (2019: R480 million). Average selling prices increased by 9.9% whilst sales volumes decreased by an average of 8.5%, with the operating profit increasing to R35 million (2019: R22 million). Profitability improved across all countries as a recovery in regional poultry markets was experienced following a devastating drought and crop failures in 2019.

Daan Ferreira, Astral's CFO, said: *"The expansion of the Festive processing plant at Olifantsfontein was completed, in time and within budget. The cost of the project to date amounted to R710 million, contributing to an increase in the total assets employed by the Group. Future major capital expenditure will be carefully assessed on a project-by-project basis. The Group's liquidity is well positioned to fund the declared dividend of R7.75 per share. The total dividend for the year amounts to a dividend cover of 1.9 times compared to headline earnings."*

Despite the higher import tariffs on frozen bone-in portions announced in March 2020, poultry imports have continued unabated. This proves what the industry has been advocating for some time – that poultry imports into South Africa typify classic dumping, where prices are merely reduced to maintain export volumes from the producing countries.

Schutte concluded: *"We are expecting trading conditions to remain challenging given the unprecedented high unemployment rate and the severely constrained discretionary disposable income. Although South Africa reported an above average maize crop for the 2020/2021 season, raw material input costs are currently higher on the back of a weaker local currency, global weather concerns, international coarse grain demand (China) and a rally in international prices, which have led to higher feed prices into 1H2021."*

The Group's best cost strategy has been unwavering, and together with Astral's strong and resilient balance sheet, will continue to benefit the Group over the long term.

## Ends

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### Company background

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

- County Fair
- Festive
- Goldi
- Mountain Valley
- National Chicks
- Meadow Feeds
- Tiger Animal Feeds
- Tiger Chicks

- Supa Star
- Ross Poultry Breeders
- Mozpintos
- CAL Labs