ZIMPLOW
ENGINEERING PERFORMANCE

TRADING UPDATE THIRD QUARTER (Q3) 2024

Zimplow Holdings Limited hereby issues the following Trading Update as at 30 September 2024

OPERATING ENVIRONMENT

In the quarter under review, the economy witnessed the first increase in inflation (August 1.4%) since the introduction of ZWG, and this culminated in a 5.8% month-on-month inflation figure in September 2024 as recorded by the Zimbabwe National Statistical Agency (ZIMSTATS). This continued inflationary environment and local currency volatility, coupled with the aftermath of one of the worst droughts in recorded history, resulted in the Group's performance being adversely affected in the period under review. The dominance of the United States dollars' currency compared to the local currency continued to be evident in the domestic operating environment during the quarter under review reducing the Group's dependency on financial institutions for currency allocations for imports. The approval of Zimbabwe's provisional tariff schedules by the African Continental Free Trade Area (AfCFTA) Secretariat paves the way for the country to commence preferential trading under AfCFTA. This is an opportunity for the Group to access further markets for Mealie Brand products.

FINANCIAL PERFORMANCE

In the period under review, the Group recorded revenue amounting to US$20.6 million, which was 12% below that for the comparative period last year. This performance, although below prior year, improved in the period under review with most business units showing a positive trend towards profitability from the commencement of the third quarter, against the backdrop of a loss before tax of US$1.4 million as at 30 June 2024. It is expected that the effects of the drought will be felt for at least another twelve months in the agriculture sector and will be exacerbated by the shortage of power and increased costs of production. All the above-mentioned factors and softer mineral prices, except gold, have cumulatively contributed to a lower than forecasted financial performance by the Group.

OPERATIONAL REVIEW

AGRICULTURAL EQUIPMENT & SERVICE SECTOR

Mealie Brand

Implements local sales volumes were 48% below those for the same period in 2023 whilst the export sales volumes recorded a 57% negative variance in comparison to the same period in 2023. The Business Unit's performance illustrates the severe impact to the Agricultural sector of the drought experienced in Zimbabwe and the region. Mealie Brand received a nomination from ZimTrade in the category of the Exporter of the Year in the agricultural equipment category. The Pfumvudza inputs scheme was delayed this year, resulting in most small-scale farmers funding their own inputs and having reduced liquidity to purchase Mealie Brand products during the period under review.

Farmec

Total revenue was 3% below previous year with implements sales 12% ahead of the comparative period last year whilst tractor unit sales were 4% below the 2023 third quarter volumes. ADMA statistics revealed that Farmec accounted for 17% of all national tractor sales and 44% of tractors in the 81hp to 90hp range in the period under review. Implement sales were strong accounting for 32% of national implement sales. Constrained tractor supplies from the OEM due to supply chain constraints contributed to the lower sales volumes in the 71hp to 80Hp range, but Farmec ensured product availability to the market using a proactive approach to improve availability.

LOGISTICS & AUTOMOTIVE SECTOR

Scanlink

Turnover was 19% below same period previous year off the back of lower truck sales. Bus sales increased by 367% whilst truck sales decreased by 27%. Service hours recorded a 5% positive variance and parts sales recorded a 15% increase in comparison to prior year same period performance. The Scanlink order book until the end of 2024 is healthy. The Business unit remains profitable.

Trentyre

Turnover was 31% below previous year same period. Retreads for commercial customers were 19% down in comparison to prior year same period. However, it is pleasing to note that retread supplies to the market for the quarter under review were better than the previous quarter. New tyre sales volumes were 39% below prior year performance. Management has been focused on returning the Business Unit to profitability through recapitalization, supported by a robust cost rationalization exercise that included downsizing the business. Management is focused on reviewing and refining the business model in order to ensure that it is a strategic fit for the Group.

MINING & INFRASTRUCTURE EQUIPMENT & SERVICE SECTOR

Tractive Power Solutions (TPS)

Total revenue was up by $1.4 million over the same period previous year. Supply chain delays from the Middle East and tight liquidity resulted in lower than anticipated turnover. Notwithstanding this circumstance, Management is satisfied this Business unit made significant progress in the period under review. Service hours increased significantly during the quarter in comparison to the same period prior year, whilst parts revenue increased by 956% in the same period in comparison to the same period last year. This is off the back of significant capital injection into the business unit during 2024.

CT Bolts

Although the business unit's turnover was 2% ahead of prior year same period, profitability was down by 48% owing to increases in rent and occupancy and administrative costs. NEC and Bulawayo City Council increases contributed thereof in the period under review. Volumes were flat in comparison to the prior year. The nail factory arrived in late September 2024 and was commissioned in October 2024. Products will be distributed to the branch network, which should contribute significantly to the business unit's turnover in a positive direction in the last quarter of the year. Retail packs were distributed to the Mutare and Chiredzi branches to boost the Group's One Stop Shop strategic objective.

The Group looks forward to the CT Bolts nail factory making significant inroads into both the formal and informal hardware market.

Powermec

Revenue was down 9% year to date in comparison to the same period last year. The business experienced a 37% decline in generator sales owing to challenges in stock availability. There was a 32% increase in service hours in comparison to the same period prior year. Solar installations increased by 500% off a low base in the period under review in comparison to last year same period whilst generator hire increased by 125%. The Business unit is expected to return to profitability before year-end as the unit received sufficient stock late in the third quarter to see it through to Q1 2025.

OUTLOOK

The onset of the rainy season has brought about a higher level of positivity across the economic sectors that the Group operates in. Increased liquidity from wheat deliveries and timeous GMB payments in the agriculture sector should lead to increased business volumes. Mealie Brand has successfully reduced the cost of its plough by 23%, and Management expects further efficiencies to ensure successful uptake of Mealie Brand products both locally and in the region. The Group is undergoing a transformation to effect greater service levels at more competitive prices in an effort to regain market share in the business-to-business sector against the emerging informal sector. Stock levels are generally good and the sales pipeline is healthy across all Group Business units.

Powermec continues to position itself to take advantage of the current power deficit in the provision of both solar products and generators. Management believes the current power deficit will continue up to April 2025. The response by the market to Develon earthmoving equipment has been very encouraging, leading to the sale of all available stock. Tractive Power Solution's order book is strong for the remaining quarter of 2024.

Scanlink has a strong order book to year end, spilling over into Q1 2025 with the supply of intermediate and luxury buses headlining.

By order of the Board

Sharon Manangazira (Mrs)
Group Company Secretary
18 November 2024

FARMEC MEALIEBRAND C.T. BOLTS TPS POWERMEC SCANLINK TrenTyre ZIMBABWE

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