



Interim Results Press Release

LOAD SHEDDING COSTS OF R741 MILLION DECIMATE ASTRAL's PROFITS

- Revenue increased by 6% to R10.0 billion
- Operating profit decreased by 88% to R98 million
- Headline earnings per share decreased by 88% to 163 cents
- Net cash outflow of R1.2 billion
- Staggering load shedding costs amounting to R741 million
- No interim dividend declared

22 May 2023: Astral Foods Limited (Astral), an integrated poultry producer, reported results for the six months ended 31 March 2023. *"We stated at our year end results presentation that we were expecting market conditions to deteriorate on the back of escalating raw material costs, load shedding impacts and the general decay of municipal infrastructure which would have the potential to impact operational efficiencies negatively. The conditions experienced were far worse than we could have anticipated. Daily bouts of load shedding and extended periods at Stage 6 have been experienced, with disrupted water supply and record high poultry feed prices all creating a perfect storm, which has had a severe impact on the Group's financial performance, and which will endure in the near-term,"* commented Chris Schutte, CEO of Astral.

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 the load shedding and failing municipal infrastructure at large.

The Group's operating profit declined by 88% to R98 million (March 2022: R785 million), including the 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.

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 birds 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 were 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 on-going 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.

Consequently, 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).

Chris Schutte explained: *“Recent media reports reflect that the South African Competition Commission has slammed price hikes on essential foods, labelling them as “opportunistic” and “unjustified”. The Competition Commission was quoted as saying that it now plans to investigate the prices of a range of foods – at both retail and wholesale levels – and will take a “deep dive” into the poultry chain. Any idea that poultry selling price increases were unjustifiable or opportunistic is plainly ludicrous and unfounded, which shows the lack of understanding that exists on the fundamental impact that load shedding and input cost inflation has had on business operations in South Africa. Perhaps their time and analysis will be better spent on understanding producer margins which reflect an industry in distress, rather than focussing on selling prices. In actual fact, it is Government’s inaction and failures driving food inflation.*

On top of load shedding and water supply disruptions, the weaker local currency, the fall-out of the continuing conflict in the Ukraine, higher global energy costs, global weather phenomena and the escalating costs to manage the risk of highly pathogenic bird flu, have all taken their toll on the local poultry sector. The poultry sector provides an affordable source of protein, and with the current macro-economic environment we have to issue a strong warning that food security is under threat in South Africa, as the agricultural sector cannot absorb these cost impacts.”

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.

Dries Ferreira, Astral's CFO, said: *"So far, the Group is being forced to re-allocate at least R400 million in expansion capital towards back-up solutions to supply electricity and water to our operations. A net cash outflow amounting to R1.2 billion for the period is reported, and includes R741 million in load shedding costs and R705 million in expanded working capital requirements. As a result of the current cash position and a continuing challenging trading and operational environment, no interim dividend was declared."*

Schutte concluded: *"The macro-economic crisis in the country, fuelled by incompetent State-run enterprises has led to economic stagflation, hampering any prospects for job creation, with disposable income of the consumer under severe pressure as the cost-of-living crisis deepens and a recession looms large. 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, which is fast becoming globally cost uncompetitive."*

We are expecting raw material input costs to reduce and poultry efficiencies to return to normal from July onwards. Benefits that could be derived from lower global grain prices are at risk due to the continuing weakening of the local currency, and further escalations in the diesel bill, which is included in the cost base for Stage 6 load shedding at approximately R45 million a month. 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.

It is time for Government to respond to the concerns raised by the business community and hardships reflected in the livelihoods of all citizens, instead of sitting asleep at the wheel floundering around decisions and not implementing real solutions, whilst the country implodes."

Ends

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Company background

Astral Foods Limited (Astral), an 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
- Ross Poultry Breeders
- National Chicks
- Meadow Feeds
- Tiger Animal Feeds
- Tiger Chicks
- Central Analytical Laboratories