

CHOPPIES

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Choppies Enterprises Limited

Condensed Reviewed Interim Group Financial Results for the Six Months Ended 31 December 2022

Registration Number: BW00001142508

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Figures in Pula millions	Unaudited 6 Months ended 31-Dec-22 BWPm	Unaudited 6 Months ended 31-Dec-21 BWPm	Audited 12 Months ended 30-Jun-22 BWPm
Continuing Operations			
Revenue	3,535	3,248	6,097
Retail sales	3,511	3,223	6,042
Cost of sales	(2,775)	(2,537)	(4,735)
Gross profit	736	686	1,307
Other operating income	24	25	55
Expenditure	(619)	(530)	(1,083)
Profit / (Loss) on disposal of plant & equipment	2	(2)	(2)
Movement in credit loss allowances	1	-	(7)
Administrative expenses	(533)	(476)	(834)
Selling and distribution expenses	(17)	(13)	(35)
Other operating expenses	(80)	(68)	(220)
Foreign exchange (losses) / gains on lease liability	(9)	29	28
Foreign exchange gains on Zimbabwean legacy debt receipts	19	-	15
Contingent consideration on sale of South African operations	-	-	(20)
Net Monetary Loss on Zimbabwe Entities	(2)	-	(8)
Operating profit before interest	141	181	279
Finance income			
Finance costs	(55)	(51)	(99)
Profit before taxation	86	130	180
Taxation	(15)	(22)	(35)
Profit from continuing operations	71	108	145
Other comprehensive (loss) / income			
Items that may be reclassified to profit or loss			
Exchange differences on translating foreign operations	(38)	(21)	(113)
Exchange differences on translating foreign operations in hyperinflationary economy	50	27	75
	12	6	(38)
Total comprehensive profit for the period	83	114	107
Profit for the period attributable to:			
Owners of the parent	71	105	140
Non-controlling interest	-	3	5
	71	108	145
Total comprehensive profit attributable to:			
Owners of the parent	83	112	103
Non controlling interest	-	2	4
	83	114	107
Basic earnings per share - Thebe	5.4	8.0	10.7
Diluted earnings per share - Thebe	5.4	8.0	10.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in Pula millions	Unaudited 31-Dec-22 BWPm	Unaudited 31-Dec-21 BWPm	Audited 30-Jun-22 BWPm
Assets			
Non-current assets	1,245	1,227	1,195
Property plant and equipment	581	540	538
Right-of-use assets	589	597	597
Goodwill	50	85	48
Intangible assets	8	5	4
Investments in new projects	17	-	8
Current assets	841	733	691
Inventories	576	482	461
Amounts due from related entities	7	6	4
Advances and deposits	36	36	56
Trade and other receivables	97	103	75
Taxation refundable	10	10	10
Cash and cash equivalents	115	96	85
Total assets	2,086	1,960	1,886
Equity and Liabilities			
Equity	(258)	(334)	(341)
Stated capital	906	906	906
Treasury shares	(30)	(30)	(30)
Hyper inflationary reserve	319	(494)	269
Foreign currency translation reserve	(624)	220	(586)
Retained loss	(727)	(832)	(798)
Non - controlling interests	(102)	(104)	(102)
Non - current liabilities	1,073	1,176	1,133
Long term borrowings	486	583	530
Lease liabilities	572	578	587
Deferred taxation liabilities	15	15	16
Current liabilities	1,271	1,118	1,094
Trade and other payables	880	741	717
Amounts due to related entities	39	49	44
Current portion of long term borrowings	86	81	87
Current portion of lease liabilities	174	182	157
Taxation Payable	13	20	21
Bank overdraft	79	45	68
Total liabilities	2,344	2,294	2,227
Total equity and liabilities	2,086	1,960	1,886

HEADLINE EARNINGS PER SHARE

Figures in Pula millions	Unaudited 6 Months ended 31-Dec-22 BWPm	Unaudited 6 Months ended 31-Dec-21 BWPm	Audited 12 Months ended 30-Jun-22 BWPm
Basic Earnings - total operations	71	105	140
(Profit) / Loss on disposal of assets	(2)	2	2
Contingent consideration on sale of South African Operations	-	-	20
Tax impact	-	(1)	-
Headline earnings	69	106	162
Number of shares for basic earnings	1 303 628 341	1 303 628 341	1 303 628 341
Weighted average number of shares	1 303 628 341	1 303 628 341	1 303 628 341
Diluted average number of shares	1 303 628 341	1 303 628 341	1 303 628 341
Basic & diluted Headline Earnings per share	5.3	8.1	12.4

CONSOLIDATED STATEMENTS OF CASH FLOWS

Figures in Pula millions	Unaudited 6 Months ended 31-Dec-22 BWPm	Unaudited 6 Months ended 31-Dec-21 BWPm	Audited 12 Months ended 30-Jun-22 BWPm
Profit before taxation	86	130	180
Non - Cash & other adjustments	189	188	319
Changes in working capital:			
Taxation paid	(37)	6	8
Net cash generated from operating activities	290	(34)	(44)
Net cash used in investing activities	(115)	(77)	(115)
Net cash used in financing activities	(164)	(141)	(324)
Net movement in cash and cash equivalents	11	72	24
Cash and cash equivalents at beginning of the year	17	6	6
Effect of translation of foreign entities	8	(27)	(13)
Cash and cash equivalents at end of the year	36	51	17

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Figures in Pula millions	Stated Capital	Treasury Shares	Foreign Currency translation reserve Translation Reserve	Hyper Inflationary reserve	Retained Earnings (loss)	Attributable to equity holders	Non Controlling Interest	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Balance as at 1 July, 2020 (Audited)	906	(30)	(474)	194	(938)	(342)	(106)	(448)
Total comprehensive (loss) income for the period	-	-	(20)	26	106	112	2	114
Profit for the period	-	-	-	-	106	106	2	108
Other comprehensive (loss) income	-	-	(20)	26	-	6	-	6
Balance as at 31 December, 2021 (Unaudited)	906	(30)	(494)	220	(832)	(230)	(104)	(334)
Total comprehensive (loss) income for the period	-	-	(92)	49	34	(9)	2	(7)
Profit for the period	-	-	-	-	34	34	3	37
Other comprehensive (loss) income	-	-	(92)	49	-	(43)	(1)	(44)
Balance as at 30 June, 2022 (Audited)	906	(30)	(586)	269	(798)	(239)	(102)	(341)
Total comprehensive (loss) income for the period	-	-	(38)	50	71	83	-	83
Profit for the period	-	-	-	-	71	71	-	71
Other comprehensive (loss) income	-	-	(38)	50	-	12	-	12
Balance as at 31 December 2022 (Unaudited)	906	(30)	(624)	319	(727)	(156)	(102)	(258)

OPERATING SEGMENTAL INFORMATION

Figures in Pula millions DECEMBER 2022 (Unaudited)	Rest of Africa includes Namibia, Zambia & Zimbabwe					Total for Continuing operations
	Botswana	Rest of Africa	Namibia	Zambia	Zimbabwe	
Statement of profit or loss and other comprehensive income						
Revenue	2,302	1,233	220	584	429	3,535
Retail sales	2,280	1,231	220	584	427	3,511
Adjusted EBITDA	198	56	7	32	17	254
Movement in credit loss allowance	1	-	-	-	-	1
Loss on disposal of plant & equipment	1	1	1	-	-	2
Foreign exchange (losses) on lease liability	-	(9)	-	(5)	(4)	(9)
Foreign exchange gains on Zimbabwean legacy debt receipts	-	19	-	-	19	19
EBITDA	200	67	8	27	32	267
Depreciation & Amortisation	(93)	(33)	(9)	(19)	(5)	(126)
Operating Profit/(Loss) (EBIT)	107	34	(1)	8	27	141
Statement of financial position						
Assets	1,331	755	198	287	270	2,086
Liabilities	1,838	506	129	252	125	2,344

Figures in Pula millions DECEMBER 2021 (Unaudited)	Rest of Africa includes Namibia, Zambia & Zimbabwe					Total for Continuing operations
	Botswana	Rest of Africa	Namibia	Zambia	Zimbabwe	
Statement of profit or loss and other comprehensive income						
Revenue	2,254	996	119	406	471	3,250
Retail sales	2,231	992	119	404	469	3,223
Adjusted EBITDA	228	53	1	38	14	281
Foreign exchange gains on lease liability	-	29	-	29	-	29
EBITDA	228	82	1	67	14	310
Depreciation & Amortisation	(97)	(32)	(6)	(20)	(6)	(129)
Operating Profit/(Loss) (EBIT)	131	50	(5)	47	8	181
Statement of financial position						
Assets	1,310	650	113	237	300	1,960
Liabilities	1,879	415	63	216	136	2,294

Figures in Pula millions JUNE 2022 (Audited)	Rest of Africa includes Namibia, Zambia & Zimbabwe					Total Group
	Botswana	Rest of Africa	Namibia	Zambia	Zimbabwe	
Statement of profit or loss and other comprehensive income						
Revenue	4,254	1,843	276	786	781	6,097
Retail sales	4,209	1,833	275	783	775	6,042
Adjusted EBITDA	405	101	5	59	37	506
Movement in credit loss allowance	(2)	(5)	-	-	(5)	(7)
Loss on disposal of plant & equipment	(2)	-	-	-	-	(2)
Foreign exchange gains on lease liability	-	28	-	28	-	28
Contingent consideration on sale of South Africa	(20)	-	-	-	-	(20)
Foreign exchange gains on Zimbabwean legacy debt receipts	-	15	-	-	15	15
EBITDA	381	139	5	87	47	520
Depreciation & Amortisation	(190)	(51)	(14)	(21)	(16)	(241)
Operating Profit/(Loss) (EBIT)	191	88	(9)	66	31	279
Statement of financial position						
Assets	1,223	663	141	260	262	1,886
Liabilities	1,121	1,106	200	394	512	2,227

COMMENTARY

1. Nature of business

Choppies Enterprises Limited ("the Company") is a Botswana-based investment holding company operating in the retail sector in Southern Africa. Dual-listed on the Botswana Stock Exchange ("BSE") and Johannesburg Stock Exchange ("JSE"), its operations are food and general merchandise retailing as well as financial service transactions supported by centralised distribution channels through distribution and logistical support centres.

Each week, approximately 2.0 million customers visit 172 stores under five formats in four countries. With annual revenue of more than BWP6 billion, Choppies employs over 9 000 people and is the largest grocery retailer in Southern Africa, outside of South Africa.

2. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2022 have been prepared and presented in accordance with the requirements of the BSE Limited ("BSE Listing Requirements") and JSE Limited ("JSE Listings Requirements") as well as the requirements of the Botswana Companies Act, as amended.

The interim reports have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the previous year and the methods of computation are consistent with those of the previous annual financial statements.

3. Director's responsibility for the condensed financial statements

The directors are responsible for the preparation of the unaudited condensed group financial results and financial position of the Company in accordance with BSE and JSE Listings Requirements and the Companies Act of Botswana.

4. Going concern

The group's negative equity reduced from BWP 341 million as at June 2022 to BWP 257 million as at December 2022, due to trading profits.

In ensuring the ability of the group to operate as a going concern for at least the following 12 months, the Board considered the detailed cash flow forecasts as prepared by management, undertakings of financial support by the founding shareholders, the economic outlook of the countries in which it operates as well as the probable future impact of load shedding in South Africa, from where we source products.

The Board, relying on the presentations by management, concluded that the group would be a going concern for the foreseeable future.

5. Group results

The Group's revenue increased by 8.8% to BWP 3 535 million (2021: BWP 3 248 million), driven by thirteen new stores coupled with price growth of 11.1%. Sales volume declined by 2% and excluding the new stores by 7.2% on a comparable basis.

In Pula terms, gross profit grew by 7.3% to BWP 736 million (2021: BWP 686 million) despite the challenging economic environment.

The Group faced a demanding economic environment characterised by stubbornly high inflation, higher interest rates and unemployment, all of which continue to constrain consumer spending and their ability to digest higher prices. Sales volumes were lower in many categories, exacerbated by competitor discounting, with cost pressures only partly recovered through price increases.

The Gross Profit margin was accordingly reduced to 21.0% from last year's 21.3% and the full-year margin for FY2022 of 21.6% due to higher supply chain costs, including fuel and managing prices due to higher cost inflation and competitor discounting.

Expenses increased at rates well above inflation partly due to new stores opened. Foreign exchange losses on lease liabilities of P9 million (against a gain of P29 million last year) were offset by foreign exchange gains on Zimbabwean legacy debt receipts of P19 million (2021: Nil).

Operating profit (EBIT) reduced by 22.1% from BWP 181 million to BWP 141 million whilst "adjusted" EBITDA, which excludes foreign exchange gains and losses on lease liabilities, movements in credit loss allowances and Zimbabwean legacy debt receipts, reduced by 9.6% as costs grew faster than gross profit. EBIT margins consequently declined from 5.6% to 4.0%.

Net finance costs were higher than last year due to higher interest rates and interest on new stores lease liabilities.

The effective tax rate is lower than the standard rate mainly due to the legacy debt receipts from Zimbabwe that are exempt from income tax.

The Group continues to manage its cash resources and liquidity prudently with a reduction of BWP 64 million in net debt over the past six months from BWP 600 million to BWP 536 million. Capital expenditure increased to BWP 122 million (2021: BWP 83 million) as the Group invested in new stores and maintained the distribution fleet.

Management made deliberate investments in inventory to support service levels, combat supply chain disruptions and service new stores.

As the economies in which the Group operates recover and the new stores reach full potential, an improvement in margins is expected. With a value proposition that resonates with customers and with the cost of everyday items still stubbornly high in too many categories, more customers are choosing Choppies for the value and assortment we are known for. While we have strong and resilient brands, affordability is a growing constraint for consumers, limiting their ability to digest higher prices.

We are being thoughtful and balanced about inventory levels by category and expenditure as we work through the second half and position ourselves for next year.

6. Operational Overview

Botswana

Botswana experienced modest sales growth to BWP 2280 million (2021: BWP 2 231 million) due to negative volume growth. Sales from Botswana increased by 2.2% as the business continued to show strong resilience in an increasingly challenging economic environment. The Botswana economy continues to experience elevated inflation, high unemployment, and low economic growth.

Operating expenditure increased by 12.9% driven mainly by five new stores and higher inflation resulting in a 13.2% reduction in adjusted EBITDA and 18.3% reduction in operating profit (EBIT).

Rest of Africa consists of Namibia, Zambia and Zimbabwe.

The Rest of Africa sales increased by 24.0% to BWP 1 231 million (2021: BWP 992 million) driven by the addition of eight new stores, inflationary increases in Zimbabwe and Zambia and volume growth in Namibia and Zambia.

Adjusted EBITDA, which excludes foreign exchange gains and losses on lease liabilities, movements in credit loss allowances and Zimbabwean legacy debt receipts, increased by 5.7%. EBITDA was reduced by 18.3% due to foreign exchange losses on lease liabilities of P9 million against a gain of P29 million last year, offset by foreign exchange gains on Zimbabwean legacy debt receipts of P19 million (2021: Nil).

The segment EBIT declined by 32.0% due to foreign exchange losses on lease liabilities and higher depreciation on the back of the new stores.

7. Events after reporting date

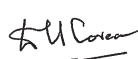
We expect continued uncertainty in our business and the Southern Africa due to the duration and intensity of load shedding in South Africa; the volatility in employment trends, inflationary pressures, and consumer confidence, all of which may impact our results.

The Board has decided to recapitalise the business to address the negative equity and raise funding for expansion. We have appointed advisors to guide this process and help determine the quantum and equity instruments best suited for the optimal long-term capital structure of the group. Further details will be issued through Xnews and Sens over the next few months.

8. Dividend

The Board has resolved not to declare an interim dividend given the uncertain economic environment as well as the rebuilding phase of the Group's capital structure (2021: Nil).

For and on behalf of the Board



D. K. U. Corea
(Chairman)
21st February 2023



R. Ottapathu
(Chief Executive Officer)

REGISTERED OFFICE
Plot 50371,
Fairgrounds office park,
Gaborone, Botswana.

SPONSORS
BSE: Stockbrokers
Botswana
JSE: PSG Capital

COMPANY SECRETARY
DPS Consulting Services
(PTY) Ltd.
Plot 54513,
Unit 6A
Courtyard Village,
Gaborone, Botswana.

AUDITORS
Mazars
Plot 139,
Finance Park,
Gaborone,
Botswana.