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Growth in production and sales volumes lift Turnall's HY18 turnover

HARARE – Turnall's revenue for the half year ending 30 June 2018 was up 77% on the back of improved production and sales volumes, the group FD Samson Mavende told analysts today.

Revenue increased from $7.652 mln to $13.525 mln representing 77% growth.

"Production volumes were 29 630 tonnes, an increase of 79% on prior year whilst capacity utilization rose to 48% compared to 27% at HY17", said Mavende.

Meanwhile, sales volumes were up 63% on prior year at 25 432 tonnes.

The company recorded a surprise revenue figure of $3 mln in sales during the month of June 2018. That jump was likely to have been driven by speculative customer activities ahead of an 'uncertain' election. Construction materials were being used as a way of locking value.

Trade and other receivables stood at $1.632 mln versus $1.097 mln.

"We have continued with making cash sales only except for our big clients and usually corporates whom we give 14 to 30 days", he said.

Asbestos cement (AC) roofing products volumes were up 53% at 11 829 tonnes. The same products contributed 78% to total turnover compared to 72% on prior year.

The group produced 13 449 tonnes of concrete products, an increase of 110%. Concrete products contributed 20% to revenue up from last year's 15% contribution.

Pipe volumes, however, were down 89% at 155 tonnes. Pipes only managed to contribute 1% to revenue against 13%.

"We have not had any major pipe demanding projects but we must see some improvements as the second half of the year progresses", Mavende said.

Gross profit was up 158% from $2.028 mln to $5.23 mln. GP margin rose from 27% to 39% as the company embarked on various measures.

"Increase of margin is largely attributable to significant improvement in capacity utilization; consistent supply of raw materials and spares; procurement efficiencies and cost control", he said.

Costs of sales grew by 48% from $5.624 mln to $8.295 mln. The increase was slower that revenue growth.

Profit from operations were up 931% from $244 573 to $2.521 mln. Margins jumped from 3.2% to 18.6%.

Operating expenses increased 52% from $1.784 mln to $2.709 mln.

Finance costs decreased by 31% from $555 345 to $384 324. "The loans were restructured and now attract interest charges of 10% per annum", he said.

As a result, profit before tax increased by 688% from a loss of $310 772 to a profit of $2.137 mln.

"The company will not pay any taxes as it will be utilizing assessed losses from previous year", highlighted Mavende.

In terms of the group's financial position, the company managed to reduce its net current liabilities from $11.8 mln to $5.8 mln helped by debt restructuring and profitability recorded during the period.

The payment of legacy debt is ongoing.

"We have managed to adhere to all payments plans agreed upon with key creditors and lenders when they fall due. We are also in good working relationships with all our creditors", added Mavende.

Giving an update on cash flows, Mavende noted that cash generated from operating activities before working capital changes was $3.1 mln against $0.97 mln (Dec 2017).

"A total of $2.4 mln was re-invested in working capital whilst net cash utilized in investing activities was $0.31 mln", he said.

A decrease in cash and cash equivalence of $310 000 versus $219 000 was recorded.

Meanwhile, cash and cash equivalents stood at minus $104 325) against minus $570 815 on prior year.

Total assets rose from $34.072 mln to $35.081 mln.

Updating on the operating environment, MD Roseline Chisveto said that liquidity challenges characterized by persistent cash shortages continued whilst foreign currency constraints worsened negatively impacting the group's ability to import critical raw material and spares.

A three tier pricing system dominated the market anchored by a high speculative behavior.

"Competitiveness of the company's product was enhanced through continued import restrictions introduced by government while strong focus on infrastructure projects and housing increased. The revival of mortgages by banks has yielded positive results for the group", she said.

Export sales were focused on Zambia, mainly on concrete roofing tiles. "We see ourselves getting into South Africa and Mozambique as these markets are only taking non-asbestos products", she said.

The company has started receiving fibre from the local (Shabanie Mashava Mines) SMM mines and has conducted successful trials.

"We commenced with 10% local fibres and increased to 50% usage against imported fibres and results have been satisfactory", she added.

In terms of key focus areas, the company will continue to dedicate its efforts towards production and sales volume growth; enhanced customer service; improved risk management and internal controls; manufacturing excellence; innovation, research & development; improved liquidity and financial growth as well as improved profitability and return to shareholders.

Giving the outlook, Chisveto said that the group looks forward to improved demand as we approach the peak period for the construction industry which is the second half of the year.

The group will continue to strengthen its technical expertise through benchmarking visits to other advanced plants to enhance knowledge.

“We have been exposing our technical staff to other countries with advanced plants and we will continue with such exercises going forward”, she said.

Meanwhile, synergies and partnership initiatives will be pursued to strengthen the supply chain.

Mavende, left, with Chisveto

Chisveto added that the group will be continuously reviewing contracts to support its factories with a sustainable supply plan on spares and utilities.

The group is set to tap opportunities from improvements in the economic viability of agriculture.

We expect Capex to increase mainly on plant upgrades scheduled in the last quarter of the year.

“Turnall seeks to invest a further $600 000 to improve factory capacity by a further 20%. New capacity will help the company to re-enter markets namely South Africa, Botswana and Zambia”, she said.

The group is prioritizing retooling and seeks to improve and address issues to do with forklifts and front-end loaders to improve capacity utilization.

“We will continue to work with the local mines for the supply of fibre and we will benefit through reducing foreign currency requirements and improved procurement logistics”, she concluded.

The group will continue to work closely with miners so that they can be able to come up with the right formula in their mixtures as per clients’ requirements.

Aggregated analysts comment: It is always difficult coming out of a deep hole. For some, in confusion, instead of figuring out how to climb out they keep digging deeper to their peril. Turnall seems to be doing things differently. The market welcomed the progress Turnall has been making since recent management came on board as they had to and are still dealing with a weak balance sheet, products that were losing ground against competition and crippling liquidity problems. This half year the company is showing marked improvement in performance, albeit from a low base. To an extent the foreign currency shortages which affect imports of fibre also benefited Turnall as competition from iron sheets subsided with import restrictions further enhancing local sales. Of course this is unlikely to continue especially with the economic reforms largely expected to be rolled out by the new administration. The company needs to improve its competitiveness further to withstand import competition both in terms of quality and price before it can meaningful grow its exports. Signs of great potential are there but legacy issues have to be completely resolved first before any reasonable sustainable growth can be achieved. Commendable results, nonetheless.