



GRINDROD LIMITED

PRE-CLOSE BUSINESS UPDATE

BUSINESS ENVIRONMENT

Trading in the first quarter of this year was strong throughout most of Grindrod's businesses. The Covid-19 lockdowns in the southern African countries impacted significantly on many of the continuing businesses ability to generate revenue and cover their cost base during the second quarter.

Those businesses that were permitted to operate as essential services continued to do so in very complex circumstances. All the businesses curtailed and deferred costs.

Following the announcement that South Africa would move to Covid-19 alert level 3 with effect from 1 June 2020, all the remaining businesses opened. Although Mozambique remains in the state of emergency until 30 June 2020, mineral cargo flows had resumed and the port and terminals are operating albeit under strict conditions.

As logistics supply chains start the recovery process and the market demand returns we have begun to see increased demand for our services.

Sulphur loaded at Richards Bay from the new Seamunye facility



A Grindrod ship evacuating empty containers during March 2020

OPERATING DIVISIONAL REVIEW

Port and Terminals

The Richards Bay facilities have seen cargo flows at reasonable levels throughout the period. Mineral rail cargo flow to our Matola and Maputo terminals is ramping up following the re-opening of the international borders.

The road haulage bottleneck at the Komatipoort / Lebombo border post between South Africa and Mozambique is being resolved and rail capacity increased to ensure improved product flow into Mozambique.

May commodity flows were at 0,3 million tons for Matola with total terminal throughput at 0,6 million tons for the month. This represents 45% of normal monthly capacity.

The focus remains to maximize capacity utilisation at the Maputo and Matola terminals. June month to date has shown good improvement on May volumes of iron ore and chrome with an increased number of vessel calls.

The infrastructure development plans which have been delayed, are now progressing well and should be substantially completed in the second half of the year. Certain sections of the new facilities are already available for use.

The next extension of the chrome slab to incorporate a rail siding to accommodate two rakes of 50 wagons to enhance rail turnaround times has been approved.

Containers

Essential cargo volumes meant that for two months container flows were erratic. The intermodal and seafreight services were performing contingency operations to ensure these products could move in very congested South African ports.



The new Umlazi facility filling up with reefers for the citrus season

With the opening of these ports the depots have commenced delivery of the full containers to suppliers. This period coincided with the normally very busy citrus season and this year has been no exception.

Our teams have been working hard with the shipping lines to provide the necessary reefer services to enable delivery of the countries harvest. New facilities have been prepared for reefers in Durban and additional warehouse space has been contracted for customers in Port Elizabeth.

During the period the business secured its long-term tenure at the Maydon Wharf facilities that are now leased directly from Transnet.

Container handling through the terminals and on the feeder ships during May were well in excess of expected levels.

North-South Rail Corridor

The rail business felt the impact of the lockdowns through the closure of borders and force majeure called on some sites following the closure and scaling back of mines.

Since re-opening three locomotives and 54 new wagons have been positioned on the Dar corridor to run freight in and out of the copper belt. In addition, freight from Durban container terminal successfully delivered to Ndola and returned with mineral cargo.

Internal Zimbabwe business continues to be constrained but with the completion of the rail merger with African Rolling Stock Solutions and in conjunction with renewed efforts together with Transnet we remain focused on continuing to improve profitability in the short term.

Continued effort in aligning all parties on the North-South corridor remained a focus during lockdown with good engagement by all the rail operators. Six of the 20 locomotives repatriated from Sierra Leone have been rehabilitated and are ready for deployment. June volumes reported an increase of 28% in comparison to January.



One of the locomotives providing tractive effort on the Dar corridor



Two of the South African built skeletal wagons being delivered into the Dar corridor

Northern Mozambique

Grindrod have deployed trucks to carry project cargo and supplies to Cabo Afungi in Northern Mozambique on three chartered vessels to facilitate the development in the absence of reliable road corridors.

Three vessels chartered for the Northern Mozambique oil and gas development work have delivered 6 400 tons of cargo in 15 sailings since the beginning of the year. The sailings continued throughout the lockdown period.

Grindrod vessel and trucks with cargo disembarking at Cabo Afungi In Northern Mozambique



A fourth vessel has been chartered and will commence operating in August.

Development on the Palma intermodal depot is expected to be completed by the end of the year, expanding our services in the region.

Further work on opening the corridors again for trade through the port of Nacala was halted but will recommence as soon as cross border movement reopens.

Carrier Logistics

Both the automotive and fuel carrier logistics businesses have struggled during this period. This has led to management withdrawing from certain business and scaling back the operations. Recovery in this segment has been poor and does not appear to be sustained. These actions will necessitate impairments and provisioning.

Bank

Grindrod Bank continues to operate cautiously during this time ensuring that its liquidity cover and capital adequacy ratios remain above minimum regulatory requirements.

The advances book has been carefully assessed to ensure that adequate provisions are in place to cover loans where security values may have been compromised due to Covid-19. A number of clients have also been assisted with repayment concessions over this period to alleviate the cashflow stresses many businesses have experienced as a result of the strained economy and the extended lockdown. Performance may be impacted by provisioning and negative impact of the forward looking IFRS 9 macro-factor models on the portfolio impairments based on our best estimate of the deteriorating macro-economic outlook.

Deposit levels (excluding retail deposits) have remained stable over the period at R8,9 billion as at 31 May 2020 (R8,7 billion at R31 March 2020).

DISPOSAL PROCESS

The process of disposal of assets held for sale continues albeit at a slower pace than anticipated with potential buyers choosing to focus on their own portfolios.

At the June reporting period close we will be required to re-consider the valuations on some of the investments within the private equity book and the investments held for sale given the impact of Covid-19 and the weak macro-economy.

