



The Trusted Home of Agriculture
Die Betroubare Tuiste van Landbou

2 June 2020

CORPORATE

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Dear BKB Group Shareholder

GENERAL AND COVID-19 UPDATE

The BKB Group has had challenging trading conditions over the past year. The outbreak of Foot-and-Mouth disease has had a direct impact on the Fibre and Livestock businesses, and the BKB Group is currently managing the effects of the national and global lockdowns as a result of the SARS-CoV-2 virus outbreak. Although we have seen a gradual easing of lockdowns, the world is still not back to “normality”. The question remains if there will ever be a return to pre-Covid-19 “normality” soon. The health impact of the virus may moderate over the next 12-18 months as we learn to deal with it, but the impact on the world economy will be extensive. BKB has been more fortunate than most other companies, but it has not escaped the consequences of the lockdowns.

The diversity of BKB’s business model is proving to be beneficial, as some businesses, such as Atlanta, has seen an increase in business, which partly compensates for businesses such as Fibre, which had to shut down temporarily, and now operates in a depressed demand environment. Management currently expects the BKB Group’s profits to be down by 50%-60% compared to forecasts made pre-Covid-19, and 5%-10% lower than actuals achieved in 2019. Many short term interventions have been put in place, and from a liquidity perspective, BKB is in the advantageous position that it will be able to run the business fairly conventionally, without having to resort to drastic measures such as selling of productive assets, debt restructuring, etc. Short-term measures implemented, include deferment of salary increases, capital projects and new business investments and acquisitions.

With regard to specific sectoral impacts, the Fibre division has seen the most severe impact, as it was shut down for nearly 5 weeks. It has also experienced the most severe impact in terms of its market, as the worldwide slowdown in demand for high-end fibres, has had a severe impact on specifically wool prices and volumes sold. Currently it is forecast that the auction season will be slightly extended, with the last auction on 8 July 2020 and the new auction season commencing earlier than usual. It is difficult to take a stance on when markets will recover, and should the world economy enter a prolonged recession, improved demand conditions for fibres over the next 12-18 months will be few.

The Livestock division experienced a testing month in April, because of confusing lockdown regulations pertaining to auctions, resulting in fewer auctions. Lower demand for red meat also put pressure on prices. The month of May has seen a return to more favourable conditions, with both volumes and pricing recovering, and at present activity is nearly back to pre-Covid-19 levels. BKB has developed a comprehensive digital auctioning capability, and the lockdown has boosted the demand for these auctions. This growth is expected to continue and trends indicate that this platform is not necessarily diminishing open-cry auctions, therefore resulting in overall volume growth in this division.



Direkteure /Directors

D C Louw (VOORSITTER/CHAIRMAN),
G E J Kingwill (ONDER-VOORSITTER/VICE-CHAIRMAN)
J E Stumpf (BESTUREND/MANAGING)
J A van Niekerk (FINANSIEEL/FINANCE)
A S du Toit (UITVOEREND/EXECUTIVE)
P G Carshagen, C D Hobson, J F Janse van Rensburg, M H Jonas,
E A Meyer, V Pillay, H C Staple, H J Swart.

INTEGRITY

SERVICE EXCELLENCE
ENCOURAGE ENTREPRENEURSHIP
DRIVE EARNINGS
VALUE EMPLOYEES
CONSERVE THE ENVIRONMENT

Maatskappysekreteraris / Company Secretary

J Oosthuizen MEV/MRS

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Trading and Retail has seen a drop-off in demand, especially on fuels, but has recovered to about 80% of pre-Covid-19 volumes. All of the PaKHouse brands businesses could continue to operate during the full lockdown. Lower activity levels were experienced during April, but at this stage it seems that volumes have returned to pre-Covid-19 levels. In the case of Atlanta (sugar processing and packaging), demand is very strong, with Atlanta expecting a record year with regard to both volumes sold and profit. Profitability in the other businesses remains challenging, and specific interventions have already been put in place to ensure a portfolio of businesses that will not only provide acceptable returns, but also meet the diversification and growth goals in the broader BKB Group.

Although Covid-19 has had a severe short-term impact on the BKB Group, the company had prior to Covid-19 experienced a tough 18 months with a deterioration in profitability already starting in the 2019 financial year, and continuing in the 2020 financial year. Even though there have been some unusual circumstances and situations, management is committed to rectify this situation over the next 24 months in order to ensure shareholders receive returns in line with expectations. The impact of Covid-19 has been severe on most companies, and currently the focus in most companies is not on profitability, but on survival. Companies with high levels of debt are exposed. The BKB Group still has one of the strongest balance sheets amongst its fellow organisations which affords management the opportunity to not be focussed on short term survival, but rather on ensuring a turnaround in returns.

Elizabeth Edwards once said: “Resilience is accepting your new reality, even if it's less good than the one you had before. You can fight it, you can do nothing but scream about what you've lost, or you can accept that and try to put together something that's good.” From what I have seen in my short time at BKB, is that BKB’s people – from the board to the people in our factories, branches and offices - are resilient, and in my view that is the strongest predictor of any company’s success or failure.

Yours sincerely,



JOHAN STUMPF
MANAGING DIRECTOR



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