

INVESTMENT CASE

Tongaat Hulett strives to be a proactive and resilient organisation working in collaboration with all its stakeholders in a focused, constructive, mutual value-adding and developmental manner. It has operations in six countries in the Southern African Development Community (SADC), significant sugarcane and maize processing facilities, a unique land conversion platform, a sizeable animal feeds thrust and possibilities to further grow ethanol and electricity generation.

TONGAAT HULETT'S STRATEGIC POSITIONING AND OBJECTIVES FOCUS ON THE FOLLOWING KEY POINTS:

INCREASING RETURNS FROM THE SUGAR ASSET BASE - RECOVERING CANE YIELDS, GROWING SUGAR PRODUCTION, USING EXISTING CAPACITY, WITH LOW INCREMENTAL COSTS

- The primary focus is on increasing cane supplies through higher yields from existing hectares under cane, which benefit when there are better growing conditions. It further entails improving sugar content/extraction, leading to additional sugar production which typically has a low incremental cost as milling and agricultural costs per hectare are mostly fixed.
- Weather and growing conditions over the past two years have masked substantial progress made with intensive agricultural improvement programmes, increased hectares under cane, irrigation efficiency and power reliability. The estimated impact is an increase of some 500 000 tons of annual sugar production.
- The existing sugarcane footprint, with regular growing conditions, the agricultural improvement programmes and the completion of the few new planting partnership initiatives underway, should produce some 1 650 000 tons of sugar. Tongaat Hulett's objective is to continue with these actions until it fully uses its installed milling capacity of more than 2 000 000 tons per annum.
- An early season estimate for total sugar production in 2017/18 is between 1 176 000 tons and 1 278 000 tons, compared to 1 056 000 tons in 2016/17. Total sugar production is expected to recover over two years, to between some 1 485 000 and 1 588 000 tons in 2018/19. Tongaat Hulett's marginal cost of additional sugar production is typically some US\$100 per ton from own cane (40%) and US\$280 per ton from third-party cane (60%). Realisations, ex-mill, based on current regional and EU market dynamics are approximately US\$390 per ton.
- The decrease in costs achieved over the previous four years (equivalent to some R1,45 billion in real terms) provides good momentum for ongoing cost reduction in the sugar operations. Unit costs of sugar production will benefit substantially from future volume increases.
- The recent completion in Zimbabwe of the Tokwe-Mukorsi dam and, in Mozambique (Xinavane), the raising of the Corumana dam wall and the construction of the new Moamba dam on the Incomati river, will diversify the water catchment area and provide increased stability in future water supply.
- Tongaat Hulett benefits from multiple market positions, strong brands, distribution, packing and market opportunities in local, regional, African, EU and other international markets.
- Domestic markets, where Tongaat Hulett produces sugar, remain a key focus. There has been some progress in South Africa and significant success in Zimbabwe and Mozambique with the required protection from imports, with government support.
- Key market positions and experience in both the region (southern and eastern Africa) and the EU will drive the sale of additional sugar. Tongaat Hulett is developing and expanding its positions in regional deficit markets, where a premium is earned over world market prices, as well as broadening its footprint in key value-add markets in the EU where it enjoys preferential access.





STARCH AND GLUCOSE - MORE COMPETITIVE MAIZE AND BETTER VOLUME PROSPECTS

- The starch and glucose operation is well-positioned strategically and is focused on growing its sales volume, as it consolidates its gains from replacement of imports in the coffee and coffee creamer and other sectors. It continues enhancing its product mix and developing opportunities which have been identified and targeted for growth through exports.
- Working together with customers, further opportunities are being targeted for growth through customer exports. Market development to increase the production of value added modified starches is progressing.
- These initiatives are underpinned by improving use of available capacity and the efficiency of operations.



VALUE CREATION FROM LAND CONVERSION AND DEVELOPMENT

- Tongaat Hulett has a unique land portfolio and well-established development platform in the fastest growing area of KwaZulu-Natal.
- The value creating capability of the land conversion activities continues to increase, with good progress in the important value drivers.
- The positive, constructive and inextricable link to sugarcane farming activities and rural socio-economic development is maintained. Over the past five years 24 560 hectares of new cane land have been planted, mainly in communal areas.
- 3 582 developable hectares have been released from agriculture (Act 70 of 1970) out of the 7 709 developable hectares in the portfolio. Currently 1 314 developable hectares have environmental impact assessment (EIA) approvals, with a further 1 100 developable hectares being well advanced in EIA processes.
- Negotiations on some 233 developable hectares are currently underway, representing profit potential of around R1,58 billion.

LEADERSHIP AND STRENGTH OF MANAGEMENT TEAM

- Ability and multiple advanced core competencies, good governance, strong executive and Board leadership.

SOCIO-ECONOMIC POSITIONING AND CONSTRUCTIVE INTERFACE WITH GOVERNMENTS AND SOCIETY

- Tongaat Hulett's strategic positioning in the region is underpinned by the fundamental link between agriculture, sugar production, rural jobs and community development, government and local authorities, unlocking infrastructure investment, and the conversion of cane land to development.

STRONG BALANCE SHEET WITH HIGH QUALITY ASSETS

- Increase ROCE through growth in operating profit and cash flow from existing asset base.

ADDITIONAL FUTURE GROWTH OPPORTUNITIES

- Expand white sugar refining capacity, replacing imports.
- Increased beneficiation of molasses and fibre into animal feeds, electricity, fuel ethanol and potable alcohol.
- Ethanol production - to replace export sugar.
- Electricity generation - to generate more electricity from sugarcane fibre than at present, using modern technology.