More sweet than sour

By Shannon Sherry

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A 28-year high in world sugar prices sweetened Illovo's results for the six months to end-September, but the upside was stymied, at least partly, by the strength of the rand.

Photo credit: Suat Eman

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“The world sugar price has been driven by a significant production decline in India and capital constraints within the industry in Brazil, and inclement weather during the harvest,” says Illovo MD Graham Clark.

He says Illovo, which is Africa's top sugar producer, also benefited from increased production in Zambia and Tanzania. The group's operating profit of R775,7m reflected a 13% improvement over that of the same period last year.

“But the value of the rand, which is projected to remain strong, will have a negative effect on foreign currency-denominated export revenue, as well as on the conversion of foreign subsidiary profits into rand for the season as a whole,” says Clark.

On the plus side, the rand strength “substantially reduced” financing costs, though this was also assisted by receipts of proceeds from a rights offer to raise R3bn as well as strong cash flows.

An effective tax rate in Zambia of 30% compared with 19% in the year-ago period also meant that Illovo, a subsidiary of Associated British Foods, posted a 3% fall in headline earnings per share to 106,5c.

The sugar operations in Zambia are the second-largest contributor to the company's bottom line at 26%. Malawi, at 42%, was the main contributor. In the period SA contributed 14% to earnings.

SA's contribution was sharply down from 25% in the 2008 year, with production hit by a “very dry winter”, Clark says.

He expects sugar production of just under 1,8Mt this year under “normal conditions”. This would represent an increase of about 200000t on production in the previous 12 months.

Illovo said it expected full-year headline earnings per share to be 10%-20% lower than the previous year because of the impact of its rights offer. The company declared an interim dividend of 32c.

Source: Financial Mail

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