Stronger rand pulps Rhodes Food earnings

Earnings at Rhodes Food Group have been gnawed away by the stronger rand and weaker global demand in tl
10 months to end-July.

By Marc Hasenfuss 7 Sep 2017

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Consequently, a trading update issued by the conglomerate on Tuesday pencilled in a drop of between 17% and 27% in headline earnings to between R214m and R243m for the financial year to end-September. This would translate into diluted headline earnings (taking into account new shares issued to raise fresh capital) of between 83c a share and 96c a share. This would be 25% to 35% lower than the previous financial year.

The announcement caused the share price to plummet more than 13% in mid-afternoon trading on Tuesday. Rhodes reported turnover growing 9.9% in the first 10 months of the financial year on continued momentum in SA and the rest of Africa.

The company said turnover from SA and Africa rose 21%, with organic growth of 13.9%. This segment also benefited fro
the recent acquisitions of Pakco and Ma Baker, which were consolidated for four months of the 10 months.

Rhodes said the integration programme for Pakco and Ma Baker was delivering projected early-stage cost savings and synergy benefits. However, the company said, trading conditions domestically and in other African markets had remained challenging in recent months.

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On the international side, Rhodes's business was adversely affected by the strengthening of the rand, which gained 11.8%
against the company's basket of trading currencies. Although export volumes of canned fruits had partially recovered in th
second half of the year, Rhodes indicated that sales of industrial products remained slow due to pressure on pricing and a
reduction in global demand for pulp and puree products.

The group's international turnover plunged almost 22% over the period. Rhodes said that while the operating margin of the international business benefited from a foreign exchange hedging policy in the first half of the financial year, this would ha a significantly reduced benefit to the margin in the second half.

The company said a further trading update for the full financial year to end-September would be issued next month.

Vunani Securities analyst Anthony Clark said that while some weakness in earnings was expected there had been no indication that the business would slow down so dramatically. "It's worse than expected. It's also [a slight concern] that Rhodes does not seem to be able to fatten its operating margin to over 10% "no matter how many acquisitions it makes across a variety of food sectors."

Source: Business Day