Clover profit battered on all fronts

By Mark Allix

14 Sep 2017

Clover Industries was savaged on all fronts in the year to June. Prolonged drought was followed by a wetter, cooler summer, which affected beverage sales. At the same time, rand volatility was compounded by SA's ugly political environment.



Clover CEO Johann Vorster. Image credit: Martin Rhodes via *Business Live*

Headline earnings plunged 65.9%, to R121.6m, as headline earnings per share plummeted 66.2%. Net financing costs rose 18%. The group has been increasing focus on value-added growth markets - including for custards, yoghurts and juices - while improving volumes in its low-margin distribution of raw, pasteurised and ultra high-temperature milk.

"Clover faced an exceptionally challenging year as South African food producers and retailers had to contend with several complex and ongoing issues in the economy," Clover CEO Johann Vorster said on Tuesday. "The resultant above inflation input costs, subdued volume growth and continued low consumer spending amid aggressive competitor pricing meant that we had to take some very tough decisions during the year," he said.

Revenue for the year was up 2.4%, to R10bn, despite poor markets. Of this, revenue from the sale of products rose 3.3%, to R9.4bn on better selling prices, which rose on average 6.8%, but revenue garnered for services rendered fell 6.3%, to R641m.

Ron Klipin, a Cratos Capital portfolio manager, said on Tuesday that the outlook for Clover remained clouded but that some positive aspects had mitigated the ongoing challenges.

An increase by the group in milk prices above that of its peers had resulted in a big loss in market share in the period. But competitors had followed suit, Klipin said, so there "should be an increase in volumes sold and an increase in profitability".

"The rest of [Clover's] portfolio has been under pressure due to the consumer being squeezed, high input costs and major competitive pressure," he said. Financial 2018 was likely to remain "extremely challenging", but lower food prices in the aftermath of drought in many areas in SA might boost consumer confidence, he said.

Vorster said that the new special purpose vehicle, Dairy Farmers SA (DFSA), which put pricing power in the hands of Clover's raw milk suppliers, had been in operation since April. Clover owns 26% of DFSA, with 74% of the entity having been made available to its producers.

Where Clover's turnover would now be reduced by about R1.75bn a year, the effect on profitability should be neutral given service fees payable by DFSA to Clover, which remained a milk distributor.

Klipin said that, while DFSA had been an albatross around Clover's neck, the group could now focus on improving milk volumes and products rather than on the extreme seasonal volatility of raw milk prices.

Big retailers should no longer have negative perceptions about Clover being a driver of milk prices, he said.

Source: Business Day/

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