

Clover refines milk plan

By [Mark Allix](#)

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Clover has clarified its restructuring first announced in December, saying the price of raw milk will now be determined by the market. The dairy producer has in the past determined the price paid to producers for raw milk.



Couleur via [pixabay](#)

The company said this would help milk producers pursue a "volume-growth strategy" through a new special purpose vehicle, Dairy Farmers SA (DFSA), for a "nominal amount".

Initially, DFSA will be wholly owned by Clover. In a further deal on or before 30 June 2017, Clover will retain 26% of DFSA, with 74% of DFSA being made available to producers. Clover's turnover will be reduced by about R1.75bn a year, but the effect on profitability should be neutral given the fees payable by DFSA to Clover.

The transaction will allow the company to focus on developing higher margin products while limiting its price exposure to supply-and-demand cycles.

"This will result in the price of raw milk being unequivocally driven by market forces," Clover said on Monday.

However, DFSA would become the preferred raw milk supplier to Clover and it would also determine the price at which it bought raw milk from producers, as well as the price at which it sold raw milk to customers and consumers, including

Clover. The company said it would buy milk from DFSA at the average milk price at which DFSA bought the milk.

"The removal of the non-value-added raw-milk supply component from the group's earnings should, in time, allow for an improved rating on the balance of the portfolio," Charl de Villiers, equity analyst and portfolio manager at Sanlam Investments, said.

"I expect to see Clover continue leveraging their well-established route to market by bolting on new branded value-added products that are preferably not exposed to the same agri risks as dairy."

Source: Business Day

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