

Illovo hand-over unlikely to be sticky

The changing of the guard at Africa's largest sugar producer, Illovo, looks like it will be a smooth affair when outgoing managing director Graham Clark hands over to current operations director Gavin Dagleish.



The two have worked together for some time and have seen Illovo through some notable developments. Dagleish says he's proud to have been appointed to lead the business.

Clark says his time at Illovo has been rewarding. "It's a great place to have spent the largest part of my career. I've brought in young blood - now it's time for the young guys to shine."

Clark will be relocating to Lagos as group managing of Dangote Sugar. The Dangote Group, owned by Ali Dangote - reputed to be Africa's richest person - is a widely diversified group with interests in sugar, cement, salt, flour, pasta, logistics and real estate.

"It's an exciting new stage of my career. I'll be helping to develop the company. It's attracting a lot of investors as it expands into Africa," Clark says. "I've worked around the continent all my life. It's a familiar place."

Dagleish is not too worried about his former boss becoming a competitor in the African sugar industry. "Clark will be a competitor, but his focus will be to supply the Nigerian market. Any sugar he produces that not going to Nigeria will of course make him a direct competitor."

Africa presence

Illovo has a presence in six African countries, and Dagleish will have to travel a lot, as there are a large number of board meetings to attend in areas beyond SA. Clark acknowledges that he found the travel schedule hectic. "But we want to be hands-on and get to the companies," he says.

Dagleish is no stranger to jet-setting. He was based in Australia when he was head of the global technology unit of AB Mauri, a yeast business which is a subsidiary of Associated British Foods, the controlling shareholder of Illovo.

"We lived in Sydney for close to three years, from 2008. I say 'we', but it was really my wife who lived there running a business from Sydney entails a lot of travel," he says.

While in Australia, Dagleish got to know the Weston family. They have the largest shareholding in the UK-based company and therefore control it. "They have a keen interest in Africa. I think the family loves its African investment."

Clark, who is originally from Zimbabwe, also spent some time in Australia. He had studied accounting and become a chartered accountant in SA, but also obtained CA accreditation in Australia, where he is a fellow

of the Institute of Chartered Accountants. He worked in Australia for a while as a CA in financial services.

Clark joined the sugar industry in Malawi in 1980. After about 10 years he joined Illovo, not long after it had been unbundled from the old CG Smith Group. After buying Lonrho Sugar, Illovo inherited various interest in Mauritius - some sugar cane plantations, an investment company and hotels.

"I was there when Illovo disinvested from Mauritius. It made a lot of sense to do so and the interests there were sold at a good profit, which was then reinvested in operations in Africa," Clark said.

Africa expansion

Clark says when he took over at Illovo the strategy of expanding further into the continent was already underway. Under his guidance Illovo did much of its work on developing businesses in the least-developed countries, and getting contracts to export sugar to the EU at prices generally better than the world sugar price.

That preferential quota system is probably going to come to an end in 2017. It is likely to be under Dalglish's watch, so how will Illovo respond? "We will have to look at new markets, perhaps in other African countries. I think we will also look at diversifying from our base, moving into the generation of electricity and the production of ethanol."

Sugar mills produce their own energy by burning bagasse, a byproduct of sugar cane. There is often excess electricity that could be fed into the national grid. Last week the SA Sugar Association told parliament that about R20bn could be invested in 15 bagasse-fuelled power plants, which could provide around 712MW to the national grid.

"Ethanol gives you an option in your business to swing away from sugar production. I think entering the ethanol value chain makes a lot of sense," Dalglish says.

Clark adds that between 55% and 60% of Brazil's sugar crop is used for the production of ethanol. Brazil is one of the world's largest, and lowest-cost, sugar producers. "With the world sugar price dropping, more of the big guys will be switching to ethanol," Clark says.

Brazil's cheap sugar

But Brazil is also a thorn in the side of the SA sugar industry. The SA Sugar Association accuses Brazil of dumping cheap sugar here. The local sugar industry has an import tariff, but it is based in US dollars as the world sugar price is in that currency. Since the world price is so low, the SA industry has in effect had no tariff protection for a number of years.

"It's an issue the industry is very worried about," Clark says. "It is for this reason that we asked the International Trade Administration Commission of SA for a review of the tariff. But that could take time."

Clark says one of the highlights of his career at Illovo has been the success the group has had in introducing new small-scale farmers to the industry.

"We've sold land to emerging farmers and land has been transferred to new sugar farmers under the land reclamation scheme," he says. "It's taken a lot of work, but we've had help from the provincial and national government. The new farmers are doing well; the success rate is above 90%"

Dalgleish says that under Illovo's social corporate investment policy the group has built hospitals, clinics and schools in most countries on the continent. "Some of our biggest social investments, however, are in the outlying communities that supply our sugar."

Illovo's share price has hardly reacted to the departure of Clark and appointment of Dalgleish, which is exactly what they wanted - no fuss and a smooth handover.

Over the past year, Illovo's share price has increased by 14,6%. At R15,2bn, Illovo has the largest market capitalisation of all the SA-based sugar producers. It also has a price:earnings (p:e) ratio of 17,4 times although this is likely to drop to 14,4 in the months ahead.

The slightly smaller Tongaat Hulett (with a market capitalisation of R13,9bn) is cheaper on a historical p:e of 13,3 times. Tongaat Hulett also had good financial results, though not as strong as Illovo's.

What investors are paying for with Illovo is its wide and strategic spread in six countries in Africa (including SA). That gives the group access to higher-priced preferential quotas in Europe, at least until 2017. That should continue regardless of who's steering the ship.

Source: Financial Mail via I-Net Bridge

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