

Agri-Business INSIGHT



Bringing the Inside of Agribusiness Conditions

Week 3 & 4 November 2015

Highlights

- JSE listed Food Producers and Food & Drug Retailers indices performance was grim to a month ago; while the index for Forestry & Paper was positive.
- The volume of shares traded on JSE increased for majority of agribusiness firms due to the growth of earnings.
- Dividend yields for most of agribusiness firms increased as a result of forecasts of high cash flow.
- Share prices were down as the shareholders might not benefit from their investment in the short term due to the fact that agricultural sector is currently under pressure.
- Agribusiness firms, such as Pioneer Foods and Sovereign Foods increased their revenues despite lower growth in agricultural sector.

AGRI-BUSINESS EQUITY

The agribusiness All share index performed well on JSE in the month of November, showing an increase of 3.0% compared to a month ago, boosted by the performance of Forestry & Paper in the period under review.

1. JSE Agri-Indices (overall)

	25/Nov/15	26/Oct/15	% Change
Food Producers	8848.81	9433.53	-6.6
Food & Drug retailers	9645.15	10184.26	-5.6
Forestry & Paper	54244.12	50949.7	6.1
All share	72738.08	70567.49	3.0

The Food Producers and Food & Drug Retailers indices declined by 6.6% and 5.6% respectively from month ago; while the Forestry & Paper index increased by 6.1%.

2. Individual day's volume

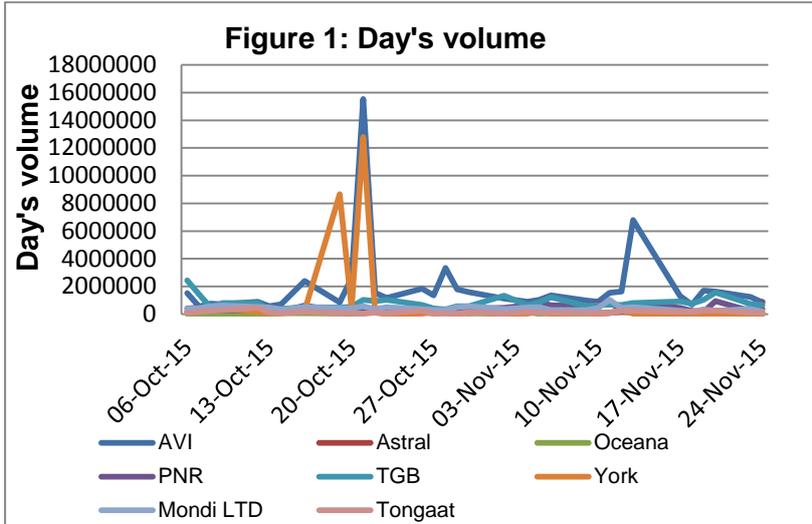


Figure 1 indicates that the day's **volume of shares traded** on JSE for Astral, Oceana, Pioneer Foods, Tiger Brands and Tongaat have increased in November. The increase is due to the growth of earnings from these agribusiness firms. However, the volumes of shares for AVI, York, and Mondi LTD have declined.

3. Dividend yield

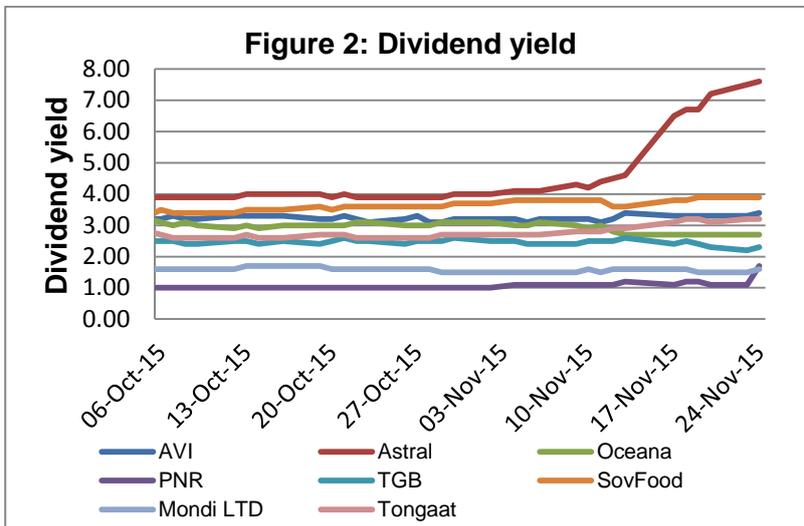


Figure 2 indicates the **average dividend yields** for AVI, Astral, Pioneer Foods, Sovereign Foods, and Tongaat have increased. This suggests that the firms might be expecting the improvement in cash flow. Whilst the average dividend yields for Oceana, Tiger Brands and Tongaat have decreased.

4. Food producers share prices

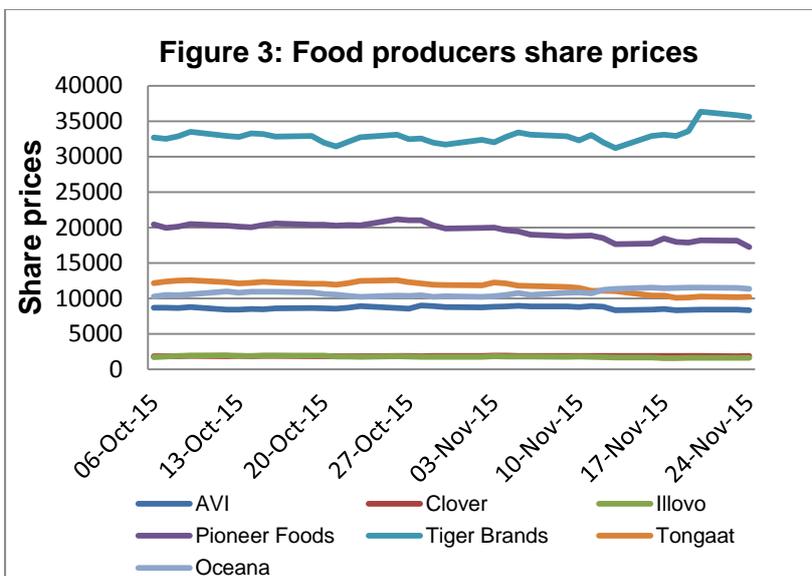


Figure 3 illustrates the **share prices** for AVI, Illovo, Pioneer Foods and Tongaat have declined. This implies that the shareholders might not benefit from their investment, since agricultural sector is not performing that well. However, Clover, Tiger brands and Oceana's share prices have increased. Tiger Brands shares were up by 3.6% at R336.82 on the 19 November 2015.

5. Food producer's price earnings

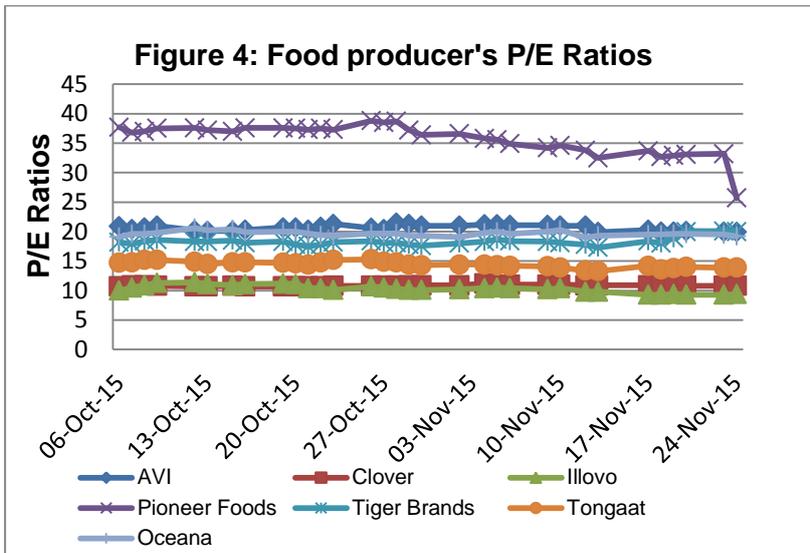


Figure 4 shows that the **P/E ratios** for AVI, Illovo, Pioneer Foods, Tongaat and Oceana have decreased due to low business confidence. P/E ratios for Clover and Tiger Brands fell.

AGRI-BUSINESS DEVELOPMENTS

GWK reported revenue grew to R7.96 billion and turnover increased by 11.76% year ending September 2015. In addition, GWK's capital ratio has increased from 26% to 32% from a year ago. The company has mainly focused on efficiency to achieve high performance but not compromising the ability to create value. The divisions such as grain, milling business, mechanisation and livestock auctions performed very well. The agribusiness has completed the extension of its silo capacity. The construction to build new wheat mill was also completed as well as biscuit and pasta plant. GWK has increased its Mechanisation unit's market share to 70%, which is backed by The John Deere agency. The growth performance improved despite lower agricultural GDP in the 3rd quarter.

Oceana headline earnings per share increased by 7% in the year ended 30 September 2015. The group's revenue increased by 22% to R6.169 billion. The weaker Rand boosted exports which led to growth of sales, revenue and pricing. The company announced an increase of 17% in operating profit and declared 365 cents per share of total dividend. The prospects of further Rand weakening will benefit the company through exports in the ensuing year.

Pioneer Foods reported an increase in revenue of 6% to R18.7 billion for the year ended September 2015. The adjusted headline earnings per share of 832c increased by 30%. The stock fell by 5.52% to R171 on the 24th November 2015. The good performance behind the financial results is that the company was mainly focusing on the major brands such as fruit exports, expansion of bakery margins, exit of Pepsi and biscuit, acquisitions and joint

venture with Nigeria. Volumes and margins were under pressure due to Rand weakness, inflation, drought, low growth and increased competition.

Mondi has been innovative by producing multilayer barrier that is used to design pouches. A multilayer barrier does not use lot of resources and stores fresh food for a long time unlike other packaging materials. The growth performance will result from pouches, packs and bags. The share price declined by 2.25% to R316.75.

Tongaat Hullett results for 6 months ended September 2015 show that revenue is down by 5.7% at R7.6 billion. Operation profit is down by 3.9% at R1.4 billion. Regardless of this, the agribusiness was able to maintain dividend at 170c per share, citing this is due to strong cash flow. The good performance in animals feeds operations, branding situation and downstream businesses has contributed to the business staying strong.

The agribusiness' future prospects include continuing with strategic positioning by focusing on multiple strategic thrusts, all with a positive impact on earnings and cash flow, through the various cycles that the business experiences. Tongaat Hullett is expected to cut jobs in the next coming months. This change will affect areas such as employee salaries and wages, transport, marketing and other goods.

Tiger Brands will be cutting funding to Dangote Flour Mills, and would make write-downs of nearly R1.9 billion. The agribusiness bought 65% stake in Dangote Flour Mills since three years ago as part of broader plan to expand elsewhere in Africa to offset slow growth at home. However, it has struggled to profit from this question. Aliko Dangote (who owns 10% stake in the company) and 3 other directors resigned from the board of Dangote Flour Mills following Tiger Brand's decision. Tiger Brand reported that operating income from SA increased by 11% to R3.6 billion in the year ended September. Operating profit increased by 3% to R3.7 billion, boosted by domestic brands' resilience. The group's brands include Oros, Tastic and Koo.

Sovereign Foods annual results show an increase of 10% in revenue. The sales volumes declined by 8%. The performance of broiler was under pressure due to higher mortalities and lower lives mass for each bird. Despite this the performance has started to improve in the third quarter. The abattoir division has grown by 5% through implementation of cartoon freezer. The yield declined as a result of the product lines that are being offered to the customers. The company wants to increase the current export market base, looking for additional strategic opportunities in South Africa and across African. Improvement of efficiencies is priority and it will take full advantage of weight graded portions in the abattoir division.

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Sources:

Business Day

Business Report

Farmer's weekly

GWK

JSE

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Pioneer Foods

Oceana

Sovereign Foods

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Tiger Brands

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