

Agri-Business INSIGHT



Bringing the Inside of Agribusiness Conditions

February 2016

Highlights

- JSE listed Food Producers, Forestry & Paper and Food & Drug Retailers indices performed well in the month of February.
- The volumes of shares traded on JSE were up as a result of efficient management of resources.
- Average dividend yields declined as investors might be declaring low or no dividends.
- The share prices for majority of food producers have increased due to positive expectations of earnings.
- Some agribusinesses are mainly focusing on acquisitions as part of their development strategy to grow their business.

AGRI-BUSINESS EQUITY

The performance of the agribusiness All share index was good on JSE in the month of February, showing an increase of 3.43% from a month ago.

1. JSE Agri-Indices (overall)

	29/Feb/16	29/Jan/16	% Change
Food Producers	7667	7641.3	0.34
Food & Drug retailers	9554.66	9292.08	2.75
Forestry & Paper	49075	47091.81	4.04
All share	66296.66	64025.19	3.43

The Food Producers, Forestry & Paper and Food & Drug Retailers indices increased by 0.34%, 4.04% and 2.75% respectively in February

2. Individual day's volume

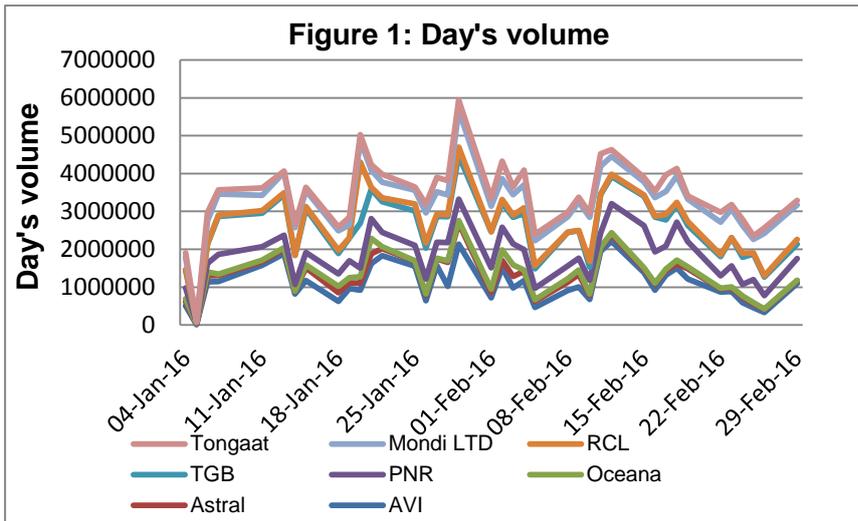


Figure 1 shows that the **average volume of shares traded on JSE** for AVI, Pioneer Foods, Mondi LTD and Tongaat were up as a result of efficient management of resources. Whilst the average volume of shares for Oceana, Astral, Tiger Brands and RCL have dropped.

3. Dividend yield

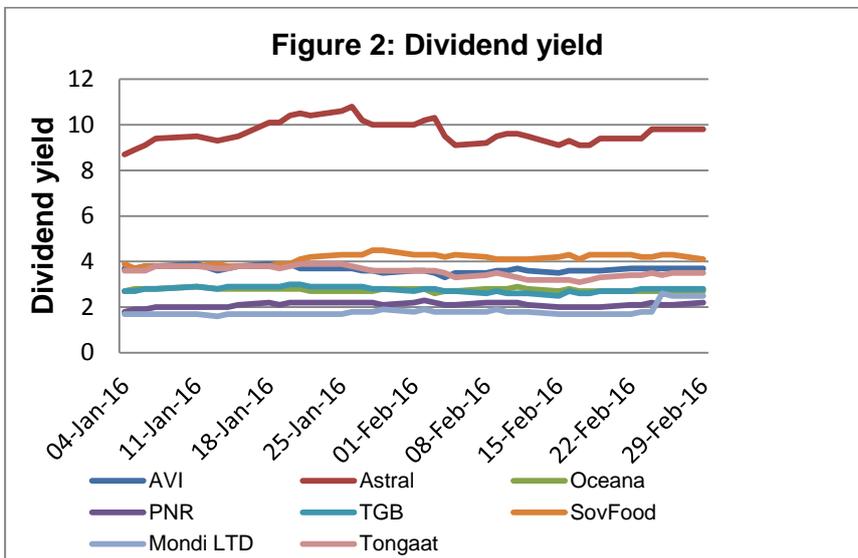


Figure 2 indicates that the **average dividend yields** for AVI, Astral, Oceana, Tiger Brands and Tongaat have declined as investors might be declaring low or no dividends. However, the dividend yields for Pioneer Foods, Sovereign Foods and Mondi LTD increased.

4. Food producers share prices

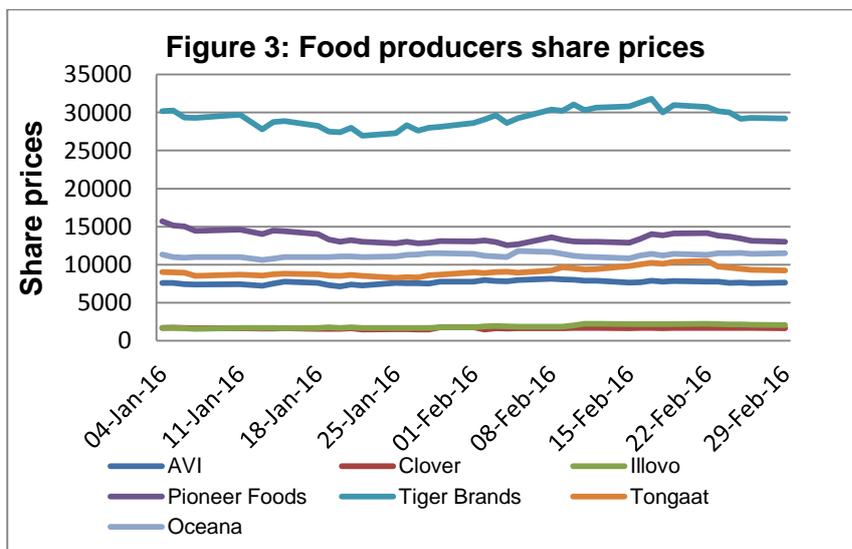


Figure 3 illustrates the **average share prices** for AVI, Clover, Illovo, Tiger Brands, Tongaat Hulett and Oceana have increased due to positive expectations of earnings. Pioneer Foods share prices have decreased increased from a month ago.

5. Food producer’s price earnings

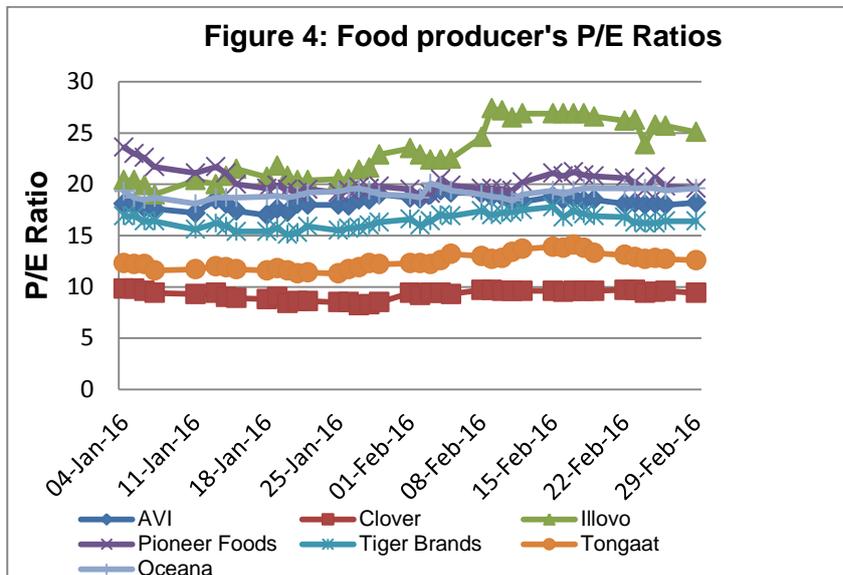


Figure 4 shows that the **P/E ratios** for AVI, Clover, Pioneer Foods, Tiger Brands, Tongaat, Illovo and Oceana increased as consumers are willing to pay for goods and services at high price due to uncertainty about weather conditions.

AGRI-BUSINESS DEVELOPMENTS

Sappi Ltd reported that profit for the Q1 2016 grew to \$75m (\$24m in Q1 2015), boosted by higher prices for the cotton substitute helped offset the effects of a drought in South Africa on volumes. Revenue declined by 6.8% to \$1.28bn (R20.35bn) and net debt was \$1.73bn (R27.5bn), compared with the \$1.77bn (R28.14bn) the company reported three months ago.

The shift to digital publishing and advertising has reduced the demand outlook for Sappi’s traditional glossy paper business, the company is now looking to diversify its production and pursuing to reduce costs and cut debt. Sappi expects “strong growth” in earnings in the current financial year compared with 2015 and sees net debt falling further.

Rand depreciation relative to the dollar during the quarter, contributes positively to Sappi’s profit margin for dissolving wood pulp, which it exports from South African mills. Low rainfall in South Africa had a negative effect of \$6m (R95.37m) in the quarter, impacting tree growth.

Pioneer Foods expects lower earnings in the first quarter of 2016 due to low grain production on the back of drought conditions. The Company reported that input costs

related to maize based products were up by 74% and new wheat import tariffs of R911 per ton is putting pressure on the profit margin of the company. The company reported an increase of 8% on group sales, but expects earnings to remain subdued in the reporting period.

Mondi will have to make loan of R26 billion to fund its acquisitions and grow its business opportunities. The group operating profit has increased by 25% due to higher selling prices, lower input expenses and strength of Euro against the Rand. The division of Mondi in South Africa boosted the total operating profit irrespective of weaker Rand and slow economic growth of 0.6% in Q4 of 2015. The acquisition is still the key driver of its strategy to utilise the opportunities as they come. The share price rose by 1.04% at R278, 15.

RCL Foods reported a 7% increase in revenue to R12.9 billion for the six months ended December 2015. The headline earnings from continuing operations is R751, 8 million and the shareholders declared 15 cents per share of interim dividend.

The drought and depreciation of the Rand against major currencies will continue to increase the prices of food and squeeze the margins in the next quarter. Consumers are under pressure, since they are spending more on goods. The company anticipates reducing production volumes in the Chicken division. It is expected that persistence of drought may likely put pressure on the Sugar and Milling division.

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Sources:

Business Day

Business Report

Mondi

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