

Company News

# SA poultry industry 'in big trouble'

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THE poultry industry in SA is in a great deal of trouble, says Astral Foods, the country's largest producer, as it slashed its dividend yesterday by a third, citing the drought, constrained consumer spending, and record imports weighing on profits.

Imports, mainly from Brazil and the European Union, soared to 7.7-million birds a week in the past six months.

Astral Foods CEO Chris Schutte said this was equivalent to about 40% of local production. In March, when the first US poultry shipments arrived under the conditions of the African Growth and Opportunity Act, imports totalled 57,673 tonnes, the equivalent of 55% of domestic production, he said.

Under the act, the US is allowed to export 65,000 tonnes of poultry to SA a year, free of antidumping duties.

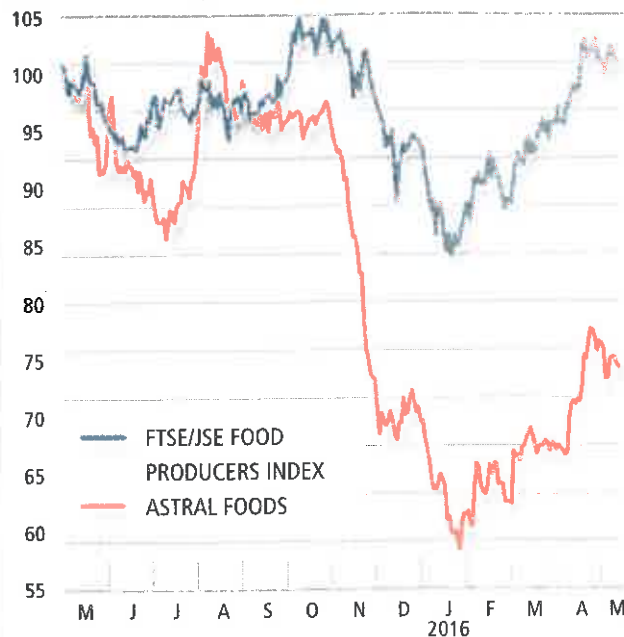
Astral Foods said the recently negotiated deal would negatively affect domestic producers, as high levels of poultry imports continued unabated.

"We are in massive trouble," Schutte said, referring to the flood of imports that limited the ability of producers to offset cost pressures by raising prices. Some medium-sized producers were already showing signs of financial distress, he said.

Operating profit at Astral Foods' poultry division dived 45% to R194.1m in the six months to March as the saturated market limited increases on broiler chicken to 1.5%, despite the 13.4% rise in animal feed costs. Profit before tax

## PAIN OF IMPORTS AND DROUGHT

Based to 100, daily



CHRIS SCHUTTE

Graphic: RUBY-GAY MARTIN Source: IRESS

declined 22%, resulting in a 23% drop in headline earnings per share to R7.74. The slump in earnings in the interim period could have been a lot worse had it not been for the 26% increase in operating profit at Astral Foods' feed division, which benefits from higher maize prices.

Astral cut its dividend 32% to R3.90. RCL Foods, the second largest poultry producer controlling about 24% of the market, said in February oversupply in the poultry industry had affected the chicken business negatively.

Earnings before interest tax depreciation and amortisation of

the RCL chicken business fell 15% to R249m.

Sovereign Foods said it expected its headline earnings per share for the year ended-February to be up to 15% lower, or up to 10% higher than the previous comparable period. It did not explain the projection.

Last year, it said the strong market prices experienced in the first quarter had weakened in the second quarter due to high import volumes and lower international poultry prices.

Mr Schutte said the poultry industry was likely to contract in the year ahead as manufacturers cut production to save costs and as merger and acquisition activity picked up.

Although Astral was not currently in merger talks, the group would be ready to enter negotiations should an opportunity present itself.

"Our balance sheet is fairly strong," he said of the group's debt-to-equity ratio of 9.8%.

"We are in a position to seize any opportunities that may present themselves."

Acquisitions would likely be "fire sales" due to the dire state of the industry.

Astral Foods is expanding into Ethiopia, where most of the chicken consumed by the population of 92-million people is imported.

"We are in the final stages of buying land to build a feed mill," Mr Schutte said.

The feed mill would be followed by a hatchery, where Astral would slide in fertile eggs until it eventually started its own breeding operations.

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