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KAAP AGRI CONTINUES ON GROWTH PATH

Kaap Agri, the JSE-listed agriculture related retail, trade and services group, achieved modest growth during the financial year ending September 2018 despite an exceptionally difficult trading period characterised by drought, policy uncertainty and waning consumer spending.

Kaap Agri employs over 3 000 people and has a footprint of 200 business units across South Africa and Namibia, which includes the retail trading brand Agrimark. Other brands in the Kaap Agri stable include Wesgraan (grain handling and agency services), Pakmark (packaging material supplier and distributor), Liquormark, as well as Agriplas, which focuses on the manufacturing of irrigation products. The company's retail fuel operations are grouped within The Fuel Company (TFC), which also operates the forecourt convenience brand, Expressmark.

During the period under review, revenue increased to R6.55 billion, amounting to an 8.1% increase on a proforma basis with like-for-like comparable growth of 6.9%. This growth was mainly driven by a 12.1% increase in the number of transactions, and TFC fuel volumes growing by 38.5% on owned and managed sites awaiting regulatory approval.

Recurring headline earnings grew by 1.7%, while recurring headline earnings per share increased by 0.7% to 354.10 cents, resulting in a five-year compound annual growth rate of 14.1% to 30 September 2018.

A final dividend of 84.70 cents per share (2017: 82.60 cents) was declared bringing the total dividend for the year to 116.70 cents per share (2017: 112.00 cents), representing an increase of 4.2% compared to 2017.

Announcing the results, Kaap Agri CEO Sean Walsh said that growth amidst the tough trading conditions is reflective of the group's ongoing diversification strategy and resilience.

"The results have once again demonstrated how important it is to be a diversified business. Despite the extensive drought, policy uncertainty, and persistent pressures on consumer spend, we experienced strong real revenue growth across all income streams. Retail sales growth continues to outperform agricultural sales growth, albeit from a lower base. For the first time the retail income channel generated trading profits in excess of the agricultural income channel," said Walsh.

Whilst the retail turnover growth was reassuring in the first two quarters, Kaap Agri experienced a decline in year-on-year growth in quarters three and four, with the fourth quarter ending marginally down on 2017.

Agri sales growth was sluggish in the first two quarters, but picked up encouragingly in the second half of the year as weather conditions improved.

Walsh confirmed that the agricultural environment remains impacted by economic and climatic conditions as well as policy uncertainty.

“Policy uncertainty, especially with regard to land expropriation without compensation, has impacted capital investment, confidence and expansions in the agricultural sector. We are engaging in this dialogue via industry bodies and are providing inputs for consideration to the relevant working committees.”

Walsh also placed the severity of the drought into the context of the group’s growth strategy.

“We targeted 15% growth, of which 11.3% was not achieved due to the impact of the drought. The 11.3% comprises of 5.2% from Wesgraan, 4.9% specifically in the country and western regions of our Trade division and a further 1.2% was lost in the irrigation manufacturing space, specifically in the Western Cape. Notwithstanding delays in the regulatory approval process which impeded targeted growth by 6.5%, significant growth was realised in TFC with income increasing by 30.1%.”

“What is very encouraging is that the remaining business grew recurring headline earnings by 4.5%. Our bad debt write-offs over the years also bear testimony to the quality and diversity of the underlying accounts, with less than 0.3% of the debtors book being written off over the last 5 years. Notably, not one wheat debtor defaulted due to the drought this year,” commented Walsh.

The Group continues to generate strong cash flows from operations and significant investment has been made back into the business to support growth, in terms of increased capital expenditure and acquisitions.

“Five new and managed retail fuel sites were opened by TFC. Our upgraded retail format was rolled out to four Agrimark stores and a number of smaller upgrades were completed within the Agrimark and Pakmark environments. The continued investment in the business is essential to deliver sustained revenue growth going forward,” explained Walsh.

About prospects, Walsh said agricultural conditions in the Western Cape have largely improved year-on-year and farm dam levels are in a good position.

Currently the outlook for a vastly improved wheat harvest and a normalised year in the fruit and vegetable environments is optimistic. The wheat harvest commenced in late October and indications are positive regarding total yield and quality.

Retail sales and general retail performance remain under pressure with glimpses of improvement starting to emerge. Trading performance in November and December, traditionally strong retail months, will give a better indication as to whether a sustained retail recovery is underway. Weakening exchange rates will negatively impact product and raw material imports.

After year-end, the Group acquired a 60% shareholding in Partridge Building Supplies which trades as Underberg Forge in southern KwaZulu-Natal (KZN). The acquisition provides Kaap Agri with an entry point into a new geographical region, KZN, as well as an additional business stream in the pasture-based dairy sector.

"Continued focus on our strategic goals will contribute to the business recovering from the subdued 2018 performance. We remain on track to achieve our strategic medium-term plan target of a minimum 15% compound annual growth rate in recurring headline earnings at a 15% return on equity," says Walsh.

"We have continued on our path of selective strategic revenue generating expansion and acquisition and are immersing ourselves in the customer experience to ensure that sustained and mutually beneficial engagements and relationships will continue," Walsh concluded.

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Issued by MediaVision on behalf of Kaap Agri

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