# Big decline in consumer goods industry

By Colleen Goko

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Consumer goods companies have been through the mill due to a slowdown in consumer spending, with interim earnings of 30 JSE-listed companies falling an average of 15%.

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"If you look at SA's growth rate 10 years ago, compared with what it is now, it is not surprising that most businesses in consumer goods aren't knocking out the lights," said EY Africa analyst Graham Thompson.

"The double-digit fall in headline earnings is quite drastic. It is indicative of how squeezed consumers actually are and of the difficult circumstances in which companies find themselves," said Thompson.

According to EY, the 13 companies - Astral, AVI, Clover, Crookes Brothers, Distell, Oceana, Pioneer Foods, Premier, Quantum Foods, RCL Foods, Rhodes Foods, Tiger Brands and Tongaat Hulett - have a collective annual revenue of R180bn.

Agri-processors Quantum Foods, Astral, RCL Foods and Clover all reported lower earnings before interest and taxes. For the poultry producers, this was put down to the drought, poultry imports and brine regulations. All four eked out some gains in revenue. In sugar, Crookes Brothers, RCL Foods and Tongaat Hulett posted growth in earnings before interest and taxes and revenue - partly due to the 30% rise in sugar prices, said EY.

As far as the diversified consumer goods companies were concerned, Tiger Brands reported the lowest growth in earnings before interest and taxes as well as revenue. Premier led the gains followed by AVI. Food and beverage companies Pioneer, Oceana and Distell all reported a decline in earnings before interest and taxes.


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EY Consumer products and retail sector leader Derek Engelbrecht said the key similarities across the sector had been the squeeze on margins as well as the scaling down of capital expenditure.

"The intersection of economic factors, coupled with unfavourable climate-related events, has undoubtedly led to a sharp contraction in recent reported numbers," he said.

In the near term, EY expected to see continued pressure "with strategy a critical differentiator to growth through these turbulent times". In its interim results statement released in May, Tiger Brands said it expected challenging volumes in South African business for the rest of the year.

Mergence portfolio manager Peter Takaendesa said this was a general theme, particularly in the food producers sector and would be true for the company's peers. The company could outperform its peers over the next two to three years.

Pioneer, which also reported interim results in May, said it expected to deliver a better performance in the second half of the year due to lower maize prices. However, CEO Phil Roux stressed that the poor results of the first half could not be recovered in the second.

For diversified company AVI, Electus Fund Managers equity analyst Damon Buss said consumer sentiment and disposable income would continue to be challenges for the company going into its second half. The company would recoup margin losses in the 2018 financial year, Buss said.

For the year to date, the consumer goods index on the JSE is up 8.4%, while the all share is 2.17% higher.

*Source: Business Day*