Clover races to meet demand for yoghurt

By Nick Hedley

20 Mar 2015

Clover Industries, which started making yoghurts and custards this year, will spend R65m on installing another yoghurt production line because the one it bought from DairyBelle has run out of capacity two years earlier than expected.

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"We are undersupplying the market by about 60%-70%," Clover CEO Johann Vorster said Tuesday, 17 March 2015, referring to the firm's inability to match retailer orders. "The launch went much better than we anticipated."

Clover had expected the Bloemfontein DairyBelle facility it took over in January to meet yoghurt demand for two years, but demand had outstripped capacity within two months.

Vorster said the new processing and packaging line would be installed at the same facility from September.

DairyBelle buyout

Clover bought DairyBelle's yoghurt and UHT "long-life" milk businesses effective in January, after the conclusion of its service agreement with Danone allowed it to start making these and other high-margin products. But while Clover no longer supplies Danone with raw milk, it still has to phase out its distribution and merchandising services for Danone, to the end of June, to satisfy a Competition Commission ruling.

Clover was working on finding new third parties to distribute for, "but we would ideally like to keep that distribution capacity for ourselves so that we can grow into it", Vorster said.

The company is launching a swathe of new products this year, including its Clover Classic yoghurt range in addition to DairyBelle's Fruits of the Forest brand, and desserts imported from Italy and custards.

Following its capital investment programme, Clover had excess production capacity with some facilities operating at only 40%-50% of capacity.

Vorster said that while distribution capacity was fully used, some of this would be freed when Clover stopped distributing Danone products.

Clover HEPS

Clover said Tuesday its headline earnings for the six months ended December grew 41.3% to R199m, as revenues rose 7.9% to R4.7bn.

The company gave up some market share as it hiked selling prices and margins. Vorster said Clover would not raise prices in the six months ending June and would rather absorb recent input cost increases.

Surplus

A looming concern was the possibility of a 3%-4% milk surplus this year, or three times the usual surplus, which would place pressure on prices.

"That would only be from September, October, November. It's part of the cyclicality of the business," Vorster said.

He said SA experienced a milk shortage in the middle of last year, driving competition for raw milk from farmers and ultimately leading to higher prices. This stimulated supply as farmers grew capacity partly by buying out smaller farms as they became more sophisticated.

Clover reported a "strong set of first-half results", said Kagiso Asset Management investment analyst Dirk van Vlaanderen.

"The company also has a good pipeline of brand extensions and new product launches and has had a very positive start to the launch of its Clover yoghurt and custard brands, which should add further support to the second half," van Vlaanderen said.

Source: Business Day via I-Net Bridge