

Tongaat Hulett expects interim earnings growth

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7 Nov 2016

Tongaat Hulett says the severe drought in KwaZulu-Natal has affected cane yields and subsequently sales volumes, but it still expects to report an increase in interim earnings.



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For the six months to September 30, Tongaat said operating profit would increase 5% to R1.4bn compared with the prior year and headline earnings were expected to rise by about 4% to R631m.

Mergence Investment Managers industrial analyst Peter Takaendesa said the trading update implied that interim headline earnings per share would be slightly below expectation. "Sugar production continues to disappoint but recent price increases have helped the performance of the business and the smaller starch operations continue to be the bright spot of Tongaat. The results could have been much better if land sales profits had maintained their momentum seen last year."

He said it was unfortunate that the company's sugar operations and land sales were taking turns to drag the group's overall performance down.

"Note that the second half of the financial year is normally a seasonally weaker period for Tongaat. Rainfall patterns are beyond management's control and the core sugar operations are largely dependent on what the skies will deliver. Management therefore needs to focus more on cost control and execution on their land portfolio sales in order to generate

attractive returns on capital."

Tongaat said operating profit from the various sugar operations was expected to total about R825m from R447m in the year-earlier period. The rise was reflective of improved local market prices - more effective import protection dynamics in the countries where Tongaat produces sugar and higher international prices.

The group said the nature of sugar milling and cane growing was such that there was a high proportion of fixed costs. "The drive to reduce costs continues across all operations."

Tongaat said advancements in the land conversion and development activities were encouraging and boded well for near-term future sales.

Source: Business Day

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