

# Green shoots visible for Tongaat after devastating drought

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Tongaat Hulett, SA's largest sugar producer, is starting to see the positive effects of the end of a devastating drought that hit its operations in KwaZulu-Natal, Zimbabwe and Mozambique.



Fluglotse2000 via [Wikimedia Commons](#) - Sugar cane fields north of Durban

The company, which posted a 9% increase in operating profit in the first half to end-September, forecast strong increases in sugar production in the medium term.

Despite the improvement in its sugar operations, the contribution of land sales to Tongaat's operating profit grew significantly.

Group operating profit of R1.471bn was up 9% from R1.35bn a year earlier, despite revenue falling 4.5% to R8.2bn. Sugar contributed R835m to operating profit, little changed from R825m a year earlier.

Land sales, on the other hand, realised an operating profit of R441m - up significantly from R269m a year earlier.

After-tax profit was R791m, up 15% from R687m a year ago.

## Weak spots

Weak spots were the South African sugar operation - hit by erratic prices as well as rising imports as a result of a gap in duties that the company said had now been addressed - and the starch and glucose operation, which was affected by having to pay import parity prices for maize, thanks to the drought. But an expected bumper crop in the current season should lead to an improvement in margins for this operation.

World sugar prices in the 12 months to March traded in a range between 14 and 23.8 US cents a pound, Tongaat said, but in the six months to September were hammered by forecasts for a global surplus and recent prices are at the bottom end of that range.

"Global sugar consumption is predicted to continue to grow at a rate of some 1.8% per annum, with most of this growth coming from low per capita consumption developing countries."

## Increased production forecast

Nonetheless, Tongaat Hulett expects its sugar production to improve substantially over the next couple of years, thanks to agricultural improvements and new planting initiatives.

Ultimately, it said in Monday's results statement, it would like to produce enough sugar cane to fully use its annual milling capacity of two million tonnes.

It forecast production to increase to between 1.161 million tonnes and 1.209 million tonnes in 2017-18, from 1.056 million tonnes in 2016-17. It is pencilling in an output of between 1.403 million tonnes and 1.51 million tonnes in 2018-19.

An interim dividend of 100c per share was declared, unchanged from the 2016-17 interim dividend.

*Source: BDpro*

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