

Drought behind Tongaat Hulett profit fall

Tongaat Hulett, SA's largest sugar producer by market value, saw its revenue decline 5.7% to R7.6bn and net profit fall 15% to R742m for six months ended September as the worst drought the country experienced in 23 years hurt production.



Fuglotse2000 via [Wikimedia Commons](#) - Huge sugar cane fields along the East Coast, north from Durban.

Although sugar production is Tongaat's core business, accounting for two-thirds of total revenue, the group generates a significant portion of income from its land management and development arm. This business sells land for residential, commercial, industrial and resort purposes. The 65 properties Tongaat sold in the period generated operating profit of R576m, up 32% from the previous comparable period.

Drought cuts production volumes

In contrast, operating profit from the group's sugar operations dropped 35% to R562m as the drought cut production volumes and resulted in an 88% decline in exports. Tongaat grows and sources sugar from SA, Zimbabwe, Mozambique and Swaziland, while operating distribution facilities in Namibia and Zambia.

"I cannot recall the last time in this century that we experienced output at such low levels," Tongaat CEO Peter Staude said. He was pleased by the rains in Kwazulu-Natal over the past weekend and forecasts of more rain this week would be helpful but sustained rainfall would be needed over the coming months to improve volumes.

Tough sugar market

Also weighing on the group's performance during the period was the severe decline in the international sugar price induced by excess supply in the market. More sugar from mainly Brazil, India and Thailand led to a drop in the export price to the European Union by 5.3 US cents per pound during the period under review.

In September, Illovo Sugar, the country's second-biggest sugar producer, also revealed its operations were taking a hit from the tough conditions in the sugar market. The company's headline earnings per share for the first half, due later this month, could decline by as much as 60%, the group warned.

Tongaat said it expected the market conditions to turn next year, with global supply seen lower than demand due to the current El Nino weather pattern that had exerted downward pressure on worldwide sugar production. Standard Bank analyst Sumil Seeraj said Tongaat remained its preferred pick over Illovo due to its property exposure.

Lower output

Tongaat said it expected total sugar production for this season to fall to between 1.005-million tonnes and 1.093-million tonnes from 1.314-million tonnes last year. In SA, production would mainly be hurt by the drought while lower dam and water levels would be likely to lower output in Mozambique, Zimbabwe and Swaziland.

Its starch and glucose operation grew operating profit 6% to R281m. Sales volumes of prime products reflected a 1% fall, with gains in its coffee creamer business and a slight increase in exports being offset by reductions in the confectionery, prepared foods, canning and paper making sectors.

Source: Business Day

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