

## Clover Industries deals coming through

Despite trying times for food producers and retailers, the dairy sector is doing fairly well, and heading the sector Clover Industries' according to Vunani Securities analyst Anthony Clark.



Clover's Johann Vorster is expecting a tough year for producers. Image: Clover

He says the dairy sector did well compared with the underlying volume growth in a number of key food categories. "Clover did okay in a tough environment," he says, adding that the company is not losing market share.

That's confirmed by total market volume growth last year where sales of cheese and butter are particularly strong, only partially offset by declines in fruit juice and fresh milk.

But the market is tough, as Clover directors warned with last week's interim results. "SA consumers are confronted with a weak rand, high fuel prices, rising interest rates and high food inflation. This environment does not bode well for sales volumes during the remainder of the year," says Clover's chief executive Johann Vorster.

That might be, but Clover has a way of getting through difficult times, usually through earnings-enhancing joint ventures or acquisitions. It has also been expanding and upgrading its factories, to increase capacity and make production more efficient.

### Futurelife deal

Earlier this month Clover announced a 50/50 joint venture with Futurelife to launch a range of functional food products (the ones that provide an extra health benefit). Vorster says Futurelife's expertise is in cereals and functional food, while Clover will run production, sales, distribution and merchandising.

Clover's board has also approved capital spending of about R150m to start making yoghurt. The production facility should be completed by the first quarter of next year. This follows Clover ending its partnership with French food group Danone last year, through which Clover had a presence in the local yoghurt market.

However, what has got the market buzzing is a cautionary announcement Clover published early in March. It was the usual "entered into negotiations" announcement but coincided with a cautionary from packaging company Bowler Metcalf.

The Financial Mail speculated - and analysts agreed - this could involve Clover forming a joint venture or outright acquisition of Quality Beverages, a softdrink bottling company owned by Bowler Metcalf which makes the Jive brand of carbonated soft drink.

Buying or forming a partnership with Jive would fit in well with Clover's product diversification strategy.

Clover's first product, back in 1898, was butter, when a group of farmers from the then Natal Midlands met at Mooi River to establish a butter factory. Fresh milk followed, then long-life milk, cheese, flavoured milk, iced tea, mineral water and various fruit juices.

Joint ventures with Futurelife and Jive would not only increase the number of products but also expand them beyond dairy products. That's how Clover gets through the tough times and even does well when other food groups struggle.

It also does well through investing in its factories. It has spent R171m, so far, on the Queensburgh factory near Durban. This included the construction of a new cold room and ambient warehouse, which does profitable storage and distribution work for clients such as Red Bull and Shoprite. With the expansion the Queensburgh factory is now pumping out 500,000 litres of milk, juice and Super M flavoured milk a day.

The expansions and upgrades are part of what Clover calls its Cielo Blu project. When it listed in 2010, Clover raised R500m of which R350m was allocated to Cielo Blu. Yet chief financial officer Jacques Botha says Clover is facing a difficult trading market. "Food prices are affecting consumer spending. Milk producers, and consumers, are under pressure," he says.

Investors, though, should not be too concerned about the short-term outlook. Deals are coming through which will support earnings growth into the future. A 12,4 times historical p/e ratio is not demanding. Buying the share before the outcome of the cautionary announcement is revealed might be a good idea.

Source: Financial Mail via I-Net Bridge

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