

Clover milk delivers the goods

Milk has turned out to be a convenient reason for Clover to visit many thousands of its retail clients every day. With about 250 players in the industry, none can match the vast distribution network of the dairy and consumer goods giant that listed in December 2010. It delivers to about 14000 points, with about 8000 deliveries taking place every day.

"We're a distribution company, really," says CEO Johann Vorster. "And in this business you need a product to distribute, then you add value.

"Milk gives us presence. It is a fantastic carrier and absorbs lots of costs."

He says Clover is now concentrating on those value-added products rather than the primary industry, though he quickly points out that putting the raw milk through 55 steps and checks qualifies it as a value-added product itself.

Besides its staple dairy product range, its value-added items include sliced cheese, bottled water and its Tropika fruit juice range. The launch of a range of carbonated drinks is also hinted at.

All Clover's most pressing costs, either direct or indirect, are for products whose prices are soaring: fuel for its fleet of trucks, feed for the herds of its producing farmers and electricity for the chilling of its goods.

Vorster says the group's Cielo Blu (Blue Sky) project, involving relocation of production facilities closer to producing areas, will cut fuel costs "substantially".

"It will make the supply chain cheaper and therefore facilitate cheaper milk."

And with SA possibly becoming a "permanent" exporter of maize, he sees import and export parity prices of the grain moving much closer. "In the long term this is great for the future of maize farming. But in the short term prices will stay high. Crops are not expected to be good and the rains have been late."

Investec Asset Management analyst John Thompson says the former co-operative is still "very much in transition to a fully listed JSE company".

He says the company's Cielo Blu project is intended to lower costs, "which is the only way for them to drive profit".

"It is a good story but the shares are too expensive. There is a lot of great excitement about the company but it could go either way. Margins are going to be squeezed if they can't get the pricing right."

Thompson recommends that investors "wait and see".

Clover's headline earnings rose almost 17% to R109,6m in the six months to December over the year-earlier period.

However, headline earnings per share fell by a similar margin, to 61,2c, as a result of shares issued at the time of listing. The company declared an interim dividend of 15c/share, 50% up on its maiden interim dividend of 10c.

Source: *Financial Mail*

For more, visit: <https://www.bizcommunity.com>