

Clover set to benefit from capital project

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Clover's Cielo Blu project is on track and the company is fully confident of achieving the projected benefits, deputy CE Manie Roode said this week.



The primary capital project was started when the company listed in 2010 and had the cash to tackle logistical and distribution inefficiencies in its business by investing in the expansion and relocation of its infrastructure.

"Importantly, we have stuck to the budget and timeline. The full benefit of Cielo Blu will kick in at the end of this calendar year, the full benefit is R99m," Roode said.

He was speaking at a media tour of the company's long-life milk processing plant, which was moved from Midrand, Gauteng to Perseverance, Port Elizabeth. The move was one of the aims of Cielo Blu, and is expected to create sustainable net transportation cost savings.

"Clover was hamstrung by historical legacy constraints, and due to statutory regulation we found ourselves with many inefficient production facilities in the north of the country, while milk production was mainly in the coastal areas," Clover nonexecutive chairman Werner Buchner says.

The result was that raw milk would be transported in specialised tankers to the Highveld where it would be processed into ultra-high temperature (UHT) milk. The same tanker would then return to the milk sources, at the coast, empty.

To date, Clover, which is SA's biggest dairy producer, has spent R100m on the Perseverance plant. Another R70m has been committed for additional warehousing at the plant, which will also produce fresh milk, UHT cream, UHT Tropika, custard and artificial cream.

As a result of the expansion, production capacity at the plant will increase from 100-million units in June 2011 to an expected 178-million units by June.

Last week, Clover reported a 33.5% decline in first-half profit as higher than normal costs associated with marketing, promotional activities and aggressive price promotions on new products all affected margins. In the six months to end-

December, Clover launched five new products at about R10m each. Also, increases in fuel and other input costs reduced earnings for the period.

CE Johann Vorster says although the move of its UHT processing capacity to the coast was only effective for part of the review period, the company realised "significant" savings on raw milk transport costs amid fuel price increases.

Application of modern technologies has resulted in a water consumption decrease of 27%, and an energy consumption decline of 36%, compared with the Midrand plant, Clover says.

The relocation of the long-life milk processing plant was a coup for the region too.

Buchner says a total of 17 skilled, 45 semiskilled and 40 unskilled employment opportunities were created. More importantly, Clover has spent 711 man days on training and skills transfer since 2011.

"This is a critical investment for our region as it supports the move to diversify our local economy through agroprocessing as one of our key sectors," says Anele Qaba, the Nelson Mandela Bay municipality's director for trade and investment.

Cielo Blu will be completed by the third quarter of this year, with the final phase involving the closure and relocation of Clover's Mayfair beverages factory to the Clayville factory.

"They have had a lot of expenses because they moved factories to be closer to the farmers in order to streamline the business," Absa Investments portfolio manager Jacques Theron says. "The company has a very strong and competent management team that is investing for the long term.

"At the face of it, it looks like a simple business, but it's very complicated and well managed. The Nestlé deal, for example, was very well negotiated. We'll see a lot of advantage coming through from it. I can only see the upside for them from it."

Earlier this month, Clover said it had acquired Nestlé SA's Gauteng-based Doornkloof property, a water-bottling plant and water rights through a new entity formed by Clover SA and Nestlé, for R58m.

The deal, subject to approval, will be settled through the issue of 30% of the shares in Clover Waters to Nestlé.

Source: *Business Day*

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