



Final Results Press Release

ASTRAL'S RESULTS ADVERSELY AFFECTED BY THE DROUGHT AND RECORD LEVELS OF POULTRY IMPORTS

- Revenue increased by 6% to R12,0 billion (Sep 2015: R11,3 billion)
- Operating profit decreased by 50% to R549 million (Sep 2015: R1,1 billion)
- HEPS decreased by 52% to 965 cents (Sep 2015: 2 016 cents)
- Total dividend of 490 cents (Sep 2015: 1 150 cents)

21 November 2016: Astral Foods Limited (Astral), a leading Southern African integrated poultry producer, reported its final results for the year ended 30 September 2016 today. "Last year we posted record results, however we have seen deterioration in profitability following the most challenging economic and trading conditions in the history of the industry. The impact of the severe drought gripping the country and the imbalance in supply and demand of poultry, caused by excessive levels of imports, placed tremendous pressure on the Poultry division's results," stated Chris Schutte, CEO of Astral.

Group revenue for the year increased by 6.1% to R12,0 billion from R11,3 billion (September 2015) due to higher sales volumes for poultry and an increase in feed selling prices. The Group's operating profit decreased by 50.1% to R549 million from R1,1 billion in the comparable period, predominantly as a result of the significant downturn in the Poultry division. The Group's operating profit margin weakened from 9.8% (September 2015) to 4.6%.

The **Poultry division** reported a 4.5% increase in revenue from R8,7 billion to R9,1 billion. Higher broiler sales volumes of 4.2% were attributable to sales out of higher opening stock, despite planned broiler production cutbacks during the year under review. The average selling price of poultry decreased by 0.6%, significantly below food price inflation over the past year, as selling prices came under immense pressure due to an imbalance between supply and demand. Feed prices increased dramatically by 17.4% per ton of poultry feed year-on-year given the severe drought affecting the country. The higher feed costs drove the production cost of poultry up, which could not be recovered through selling price increases, culminating in profitability deteriorating by 91.1% to R59 million (2015: R661 million) with a disappointing net operating profit margin of 0.7% (2015: 7.6%) for the year.

Revenue for the **Feed division** up by 15.3% from R6,2 billion to R7,2 billion as a direct result of the higher average selling price for feed. Sales volumes decreased by 2.3%, negatively affected by lower inter-group volumes (down 2.6%) given the planned cutbacks as well as improved feed conversion efficiencies. Lower external sales volumes (down 1.9%) were reported as other livestock production sectors came under similar pressure to the poultry industry. Operating profit improved by 14.7% to R485 million (September 2015: R423 million), with the operating profit margin being maintained at 6.8%. This was as a consequence of rand per ton margins improving year-on-year, supported by the successful recovery of inflationary costs, well positioned raw material costs relative to SAFEX market prices and cost improvements through benefits attributable to efficiency improvements in the feed mills.

The **Other Africa** operations' revenue increased by 4.4% from R494 million to R515 million, with operating profit decreasing by 70.0% to R5 million from R17 million. Losses were recorded in the Mozambican feed and poultry operations, which were severely impacted by a sharp depreciation of the Metical resulting in foreign currency losses on import creditors. The Zambian operations faced on-going power cuts during the year and as a result a considerable cost in operating standby generators was incurred.

Daan Ferreira, Astral's Chief Financial Officer said: "Astral's net gearing ratio of 10.1% at end September 2016 is still at an acceptable level compared to 2.4% at 30 September 2015. Given the challenging trading conditions faced by the Group, cash generated from operations declined from R996 million to R500 million."

Schutte expressed his concern over poultry imports: "We continued to see record levels of total poultry imports during the year and in March 2016, peaking at 57 700 tons, which is equivalent to approximately 10.3 million birds per week produced and represents approximately 55% of local production. A significant increase in bone-in portions originating from the European Union has been reported. This has a direct impact on local job creation as imports benefit employment elsewhere around the globe. SAPA applied for a safeguard duty under the agreement on trade, development and cooperation (TDCA) between South Africa and the EU. Any duty imposed other than the maximum bound rate of 82% allowed under the WTO rules is not likely to have any significant impact on import volumes, as the classic dumping of poultry products from the EU continues unabated. The full impact of poultry imports under AGOA has not yet materialised, as imports for the nine months ending September 2016 equated to only 33% of the quota that could potentially be imported, exempt of the US anti-dumping duty."

The weakened state of consumer spending is unlikely to improve due to poor economic growth and higher unemployment, which will continue to constrain an increase in the per capita consumption of poultry. We foresee that the new brining levels will impact poultry sales volumes and lead to higher selling prices which will impact on consumers. Although consensus amongst weather forecasters is that normal rainfall can be expected over the next South African maize growing season, which should lead to lower SAFEX maize prices from May 2017, high maize and feed prices will continue for the first half of 2017.

Schutte concluded: "Given the current state of the industry, cutbacks in local broiler production are imminent, and this following the closure of a number poultry operations in recent times. Under these circumstances Astral will continue to assess consolidation opportunities as they arise."

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Issued and released by:	Keyter Rech Investor Solutions Marlize Keyter 087 351 3810 / 083 701 2021
Issue date:	21 November 2016
JSE code:	ARL
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Company background

Astral Foods Limited (Astral), a leading South African integrated poultry producer, with key activities in animal feed pre-mixes, manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, with integrated breeder and broiler production operations, abattoirs as well as sales and distribution of various key poultry brands. The brands in the Astral stable include:

- County Fair
- Festive
- Goldi
- Earlybird
- Mountain Valley
- Ross Poultry Breeders
- National Chicks
- Meadow Feeds
- Tiger Animal Feeds (Zambia)
- Tiger Chicks (Zambia)
- Meadow Feeds (Mozambique)
- Mozpintos (Mozambique)
- CAL Labs
- Provimi SSA