Rhodes and Bull Brand producer RFG grows revenue but load shedding weighs on costs

Western-Cape based food producer RFG Holdings has reported a 37.1% increase in headline earnings to R217m for the six months ended March 2023 as the regional and international businesses expanded margins.

Source: RFG

The company, which owns brands including Rhodes, Bull Brand, Magpie, Squish, Hinds and Today, increased group operating profit by 43.2% to R346m as the operating profit margin improved by 220 basis points to 9.2%.

CEO Pieter Hanekom said revenue growth of 10.2% to R3.8bn was driven mainly by price inflation of 14.8% as well as strong trading performances by the regional and international businesses in March. Slower consumer spending and a highly competitive operating environment resulted in volume pressure in certain product categories, he said.

Regional revenue, covering South Africa and the rest of Africa, increased by 9.5%, with fresh foods revenue up 11.8% and long life foods up 8.2%.

RFG is South Africa's leading manufacturer of canned fruit, jams and canned meat. The Rhodes brand is the country's market leader in canned pineapple and canned tomato and the number two brand in canned fruit, fruit juice, infant food and canned vegetables. Bull Brand is the market leader in corned meat and Bisto in dry gravy.

The pie category delivered a strong recovery, supported by the successful integration and turnaround in the Today business, RFG said. Fruit juice, which is the largest long life product category, was the main driver of revenue growth.

Inflation slows slightly, but surging food prices still pinching SA wallets
24 May 2023

Hanekom said the regional operating profit margin expanded from 6.3% to 8.9% through the recovery of higher input costs in most product categories, particularly fruit juice, ready meals, dry foods and meat as well as the recovery in the pie category.

International revenue, which accounts for 19% of total revenue, grew by 13.2% as the positive impact of strong international selling prices and the benefit of the weakening rand were offset by a 10.4% decline in volumes. The international operating profit margin recovered from 3.4% to 10.4% as profitability was supported by good export pricing in trading currencies across the product portfolio and the weakening of the rand against the US dollar in particular.

Capital investment and load shedding impact

RFG has 14 production facilities across South African and Eswatini. Capital investment of R280m is planned for the financial year, including new and replacement generators in response to load shedding, replacement of pineapple plantations in Eswatini, capacity expansion at four factories and the replacement of canning equipment at the meat products factory.

Hanekom said load shedding has a significant impact on production output and costs. While the group has invested extensively in back-up generators over the past seven years, diesel costs to operate generators totalled R37.8m in the six-month period, running at a weekly average of R2m at current load shedding levels.

“Load shedding has accelerated our renewable energy programme. We currently have solar installations at three production facilities and a further four installations will be completed in the second half of the financial year. Another three are planned for 2024,” he said.

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19 May 2023

Outlook

On the outlook for the second half, Hanekom said the weak consumer spending environment will see volumes in the regional business remaining under pressure. “While inflation has started to ease from the heights of the 2022 financial year, we are still experiencing pressure from higher packaging and raw material costs.”

He said the current international pricing and demand for RFG’s canned fruit products are expected to be maintained. However, the business expects to ship lower volumes in the second half relative to last year as production volumes reduce to historical levels following the increased production levels in the prior year to meet the higher global demand.