

Rhodes Food Group – Trading update and trading statement

Rhodes Food Group Holdings Limited
(Incorporated in the Republic of South Africa)
Registration number 2012/074392/06
JSE share code: RFG
ISIN: ZAE000191979
("RFG" or "the group")

TRADING UPDATE FOR THE FIVE MONTHS ENDED FEBRUARY 2018 AND TRADING STATEMENT FOR THE SIX MONTHS ENDING MARCH 2018

VOLUNTARY TRADING UPDATE

Group turnover for the five month period ended February 2018 increased by 16.2%, with organic growth of 5.5%.

Regional segment

Turnover in the group's regional segment (South Africa and the rest of Africa) for the five months increased by 19.5%.

Excluding the revenue from the acquisitions of Pakco and Ma Baker, which was not included in the comparable prior period, regional organic growth totaled 6.5% and the group's brands have continued to gain share across core product categories.

Trading conditions domestically and regionally have remained constrained while growth rates in certain African markets have slowed as the impact of the exchange rate has made the group's products less price competitive.

While management has previously guided to short-term operating margin pressure in the regional segment, the business has proved resilient in the current tough consumer environment and the margin has remained steady over the prior period.

Pakco, the dry packed foods producer, has performed well in its first year since being acquired by the group. The complete integration of pie producer Ma Baker has taken longer than originally planned and further once-off costs have been incurred during this period, resulting in the business reporting a loss for the first five months. The integration challenges have now been addressed and Ma Baker has recorded a small profit for each of the last three months, with management confident of a sustained turnaround in the second half.

The regional business is expected to continue to trade at similar levels over the remainder of the financial year. Despite the improving consumer sentiment in

South Africa, it is too early to expect any marked improvement in the regional trading environment.

International segment

The international segment increased turnover by 0.5%. While export volumes have recovered, margins have been affected by the increased costs of canned fruit as a result of the drought over the last two seasons in the Western Cape. The international business has been further impacted by the strengthening of the Rand against the group's trading currencies as well as an adverse move in the mark-to-market revaluation on forward exchange contracts. These factors have had a severely adverse effect on the profitability of the international segment.

The international business is expected to benefit in the second half from the sale of lower cost-based product from the 2018 season coming onto the market, a small improvement in foreign selling prices and improved volumes. However, the margin will remain low and a strengthening Rand remains a risk to performance.

TRADING STATEMENT

Shareholders are advised that the group's earnings for the six months ending 1 April 2018 will be negatively affected by the following factors:

- As outlined above, increased canned fruit product costs and the foreign exchange impact which have had a material impact on the profitability of international and are expected to contribute to the segment posting a loss for the first half;
- Interest payments which are expected to be between R18 million and R20 million higher than the prior period, relating mainly to the funding for the acquisition of Ma Baker and the increased capital investment programme;
- Once-off costs of approximately R10 million relating to the Ma Baker integration and the final relocation of Alibaba Foods to the RFG Ready Meals facility at Groot Drakenstein.

Management therefore expects headline earnings for the six months to 1 April 2018 to be between 33% and 43% lower than the headline earnings of R126.3 million reported for the comparable prior period.

Earnings per share metrics have been impacted by the 17 million or 7% increase in the weighted average number of shares in issue over the prior six-month period relating to the issue of shares for the capital raise undertaken in November 2016 and the acquisition of Pakco effective March 2017.

	Six months ended 2 April 2017 Reported	Six months ending 1 April 2018 Expected range	
Headline earnings	R126.3m	33% - 43% lower	R72.0m – R84.6m
Earnings per share (EPS)*	52.4c	37% - 47% lower	27.8c – 33.0c
Headline earnings per share (HEPS)*	53.4c	37% - 47% lower	28.3c – 33.6c
Diluted HEPS*	51.4c	37% - 47% lower	27.2c – 32.4c

* Impacted by the increase in the weighted average number of shares in issue

The forecast financial information on which this trading update and trading statement is based has not been reviewed and reported on by the group's independent external auditors.

The group's interim financial results for the six months ending 1 April 2018 will be released on the Stock Exchange News Service of the JSE on 22 May 2018.

Groot Drakenstein
20 March 2018

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