



AFGRI core businesses boost performance

- Total pre-tax profit up 47% (Continuing pre-tax profit up 33%)
- Group profit up 18% to R354 million (2008: R299 million)
- Total dividend of 36.40 cents declared
- Net cash improved by 128% to R481 million (2008: R211 million)

Overview:

AFGRI Limited (“AFGRI”), the leading listed South African agricultural services group today released full year results for the year ended 30 June 2009.

Chris Venter, the CEO of AFGRI, says, “This is a superb set of results, with total pre-tax profit, increasing by 47%. This result has been achieved after including a pre-tax loss of R99 million arising from the “clean out” of underperforming operations that have been either disposed of or discontinued. The prior year once-off benefit resulting from the recognition of a R23 million tax benefit, together with a high current year STC charge distorts the comparison of the tax line. We are pleased with the solid results and the positioning of the company for future growth.”

In a difficult year for the Financial Services segment and an extensive “clean out” of underperforming assets, AFGRI’s improved performance for the year ended 30 June 2009 was underpinned by strong performances from its traditional agri-services activities resulting from a near record maize crop, a generally improved farming environment and improved operational efficiencies. Continued contributions from the Food segment and certain once-off gains allowed the Group to post an 18% improvement in post tax profit over those of the comparative 16-month prior period.

Pre-tax profit from continuing operations increased by 33% (R137 million) based on the results reported for the previous 16 months. The increase in profit from continuing operations includes certain unexpected once-off gains including the negative goodwill arising on the acquisition of the share of the tobacco associate and a R59 million gain arising from the apportionment of the Group’s Pension Fund surplus. Ignoring these once-off gains, the Group reported a 12% increase in pre-tax profits from continuing operations for the year when compared to the 16-months period.

The Group achieved earnings per share from continuing operations of 93.8 cents (2008: 89.2 cents).

Cash generated by operating activities grew to an impressive R868 million, from being negative R143 million in 2008. The overall position of cash and cash equivalents and cash collateral deposits at the end of the period also grew to a satisfactory level of R481 million from R211 million at the end of the previous period.

“Given our strong cash generation ability, the Board declared a total dividend for the year of 36.40 cents per share,” commented Venter.

Continuing operations:

AFGRI continues to provide business segment results as it did with the release of the interim results in March 2009, as follows:

- AFGRI Financial Services (comprising the Capital (lending operations) and Broking operating units));
- AFGRI Agri Services (comprising Logistic Services and Producer Services); and
- AFGRI Foods (comprising Animal Feeds, Daybreak Farms and Nedan business units)

AFGRI Financial Services

The division recorded revenue of R887 million for the year under review and a pre-tax loss of R8 million. The worldwide liquidity crisis during the last quarter of 2008 resulted in the re-pricing of AFGRI’s underlying facilities. Venter says, “It was not possible to pass on all of this re-pricing to customers, and as a result AFGRI experienced a reduction in the net interest margin.”

Despite the difficult economic environment the strong South African agricultural sector has meant that the quality of the Group’s debtors book remains exceptional with bad debt write-offs limited to 0,3% in the current year. Whilst profitability was affected by the “credit crunch” the management of liquidity during this difficult period is commendable, including the implementation of the R2,5 billion Rabo Bank securitisation. This now enables AFGRI to finance the largest portion of its debtor’s book with longer term facilities.

AFGRI Agri Services

The Agri Services division posted revenue of R4,95 billion (profit before tax of R328 million), consisting of R4,36 billion (profit before tax of R175 million) from the Producer Services segment and R588 million (profit before tax of R153 million) from Logistic Services.

Producer Services houses the John Deere dealership and direct farming inputs business which produced an excellent performance driven by the successful 2007/8 crop season and the large area planted for the 2008/9 crop. "We are proud of the performance of this division which posted a 154% increase in pre tax profits over that of the prior 16 month period," says Venter.

The grain storage, trading and logistic services segment (AFGRI Logistic Services) performed exceptionally well on the back of a second year of a large maize crop and operational efficiencies (PBT up 96% over prior period). Higher opening stocks in the Handling and Storage division drove revenue growth and an overall increase in pre-tax profits of 86% when compared to the previously reported 16 month period.

The Trading division performed satisfactory increasing the total volumes handled by some 124% and managing approximately 10% of South Africa's maize exports during the period.

AFGRI Foods

The Foods division posted total revenue of R3,1 billion and pre-tax profit of R168 million. Revenue remained constant in this division despite a 3% reduction in Animal Feed volumes. The division succeeded in maintaining margins and cost control.

The Daybreak Farms operation has been returned to profitability after a difficult 2008 and this is expected to continue now that its processing facility has been matched to its production capacity of 650,000 birds per week.

Discontinued operations

Afgri continues to assess and dispose of non-core operations and as such can report the disposal of the Seed unit; Farming, Snacks, Citrifruit, Cotton and the Lowveld retail stores.

Venter says, "Our clear focus and vision enables us to continue to exit non-core businesses, whilst focussing our efforts on our chosen value chain."

Prospects

AFGRI Financial Services will continue to focus the debtors book within the chosen value chain and improvement in net margin. A further deterioration in the South African economy may impact the Foods division.

The current year's large crop will support the Logistic division's results through the forthcoming financial year

The recently lower grain prices may result in a reduction in the area to be planted for the summer season, impacting upon the Producer Services division.

Venter says, "AFGRI has embarked on an exercise of restructuring the operations and focusing on core businesses and strengths. It is unfortunate that in such a good operational year we had to take the pain of cleaning out the operation. None-the-less we feel strongly that we have a good base from which to work going forward."

"In the year ahead we are going to assess potential expansion opportunities in the poultry business, evaluate food processing opportunities and aim to increase market share within our strategic operating business areas," concludes Venter.

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