

AFGRI

Rethinking the value chain

Focusing on its core grain business is at the root of agricultural services and food manufacturer Afgri's strategy.

The sale of 11 of its retail outlets specifically is a part of an overall "return to core business", says CEO Chris Venter.

"The rationale for the disposal of these specific outlets is in line with our strategy to exit retail business, which is not a part of our identified grain value chain or core business."

Venter says by grain value chain he means a link between all aspects of the company's business. JSE-listed Afgri offers a wide range of physical and intellectual inputs to farmers, processors and users of agricultural products. These services range from selling tractors to offering loans and storage & processing into food such as broilers, animal food and edible oils.

Venter sees no point in having retail outlets in areas where there are few customers for other aspects of Afgri's business.

"Our strategy is to be an integral part of farmers' lives and increase our service levels," says Venter. "The outlets we are keeping are in areas where we finance farmers and provide transport services, supply fertiliser, feed and seeds, store grain in our silos, sell and repair farming equipment and so on."

"We want to integrate these outlets into the rest of these operations."

Venter says a strategic decision was taken not to participate in retail activities in nongrain-growing geographic areas and to align the 49 remaining retail outlets with Afgri's core business. The outlets sold are in Brits, Thabazimbi, Vaalwater, Marble Hall, Groblersdal, Burgersfort, Hoedspruit, Nelspruit, Barberton, Malelane and Komatipoort.

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They have been bought as a going concern by MGK, an agricultural company, for R47,5m plus R62,5m for stock.

At the time of the announcement, Afgri said the financial effects of the transaction would have no significant effect (less than 3%), on the group's earnings per share for the year/period ended 30 June 2009.

Afgri, though, decided to retain all of

its 11 mechanisation centres and outlets, including those in Marble Hall and Malelane. Venter says it has invested substantially in training mechanics and technicians to service the John Deere machines it sells.

By focusing on its core business, Afgri says it will be well positioned to take advantage of an economic upswing.

Venter is optimistic about the agriculture sector: "We are positioning the company for the next 20 years," he says.

One aspect of Afgri's business is grain trading and prices are well down on last year's high levels. Venter says he doesn't expect to see maize prices of "R500-R600/ton" again.

He says, though "we had three bad years out of the past five, but 2008 was the best year ever because of the combination of good yields and good prices."

"This year we've had good harvests again but the solid production response of last year means that prices are down. But they're still good."

The company's silo capacity of 3,8 Mt represents about a third of SA's storage capacity and Afgri seems set to cash in on the good harvest.

Shannon Sherry

Chris Venter Focusing on grain

