

SA food producers plan more price hikes to protect margins

By [Ngobile Dlodla](#)

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Two South African food producers said on Monday, 5 September, they were planning more price increases to protect against rising costs and ease pressure on margins even as they reported profit jumps in the full year.



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Food and consumer goods companies worldwide are grappling with soaring costs for raw materials, energy and transportation. And though many consumers so far seem to accept the resulting price increases, the hikes have only partially offset higher input costs, squeezing companies' margins.

RCL, maker of Selati sugar and Rainbow Chicken brands, is particularly exposed due to its reliance on maize, sugar, sunflower oil, peanuts and wheat - where inflation has been especially high. Smaller rival AVI is exposed to palm oil, casein, robusta and arabica coffee, as well as flour.

"I'd say we're in for another six months of pain from an inflation perspective," RCL chief financial officer Rob Field told *Reuters*, adding that the poor performance of South Africa's rand currency was also weighing on costs.

Cost of sales hit

RCL reported earnings before interest, tax, depreciation and amortization (EBITDA) growth of 7.7% to R2.6bn, while AVI said its operating profit rose by 5.4% to R2.5bn in the financial year ended June.

But RCL shouldered a 9.6% hit in cost of sales, and its underlying EBITDA margin fell to 7.4%, down from 8%, as margins in baking and pies, groceries, sugar, baking and chicken all dropped.

AVI, maker of Five Roses tea and Bakers biscuits, meanwhile took a 5% hit in its cost of sales, and saw gross profit margins fall to 38.6% from 39%. The company said input cost pressures were acute in both its tea and coffee, and snacks businesses, despite hedging strategies.



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RCL had hiked prices by about 10% over the reporting period. Softening commodity prices should, however, translate to smaller price increases going forward, Field said. "Hopefully we can actually get away with not taking any further increases in some categories for the period," he added.

Some consumers are shielding themselves by trading down to smaller value packs, Field said, adding that RCL will invest in a pipeline of smaller, cheaper products, such as reduced packages in order to maintain sales volumes.

AVI's Simon Crutchley told investors that a number of price increases were planned in the first half of the new financial year, which began in July.

ABOUT THE AUTHOR

Reporting by Nqobile Duda; Editing by Kim Coghill and David Evans

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