

# Diversity is AVI's strength as profit weathers storms

By [Fifi Peters](#)

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Consumer brands group AVI is set to report consistent profit growth in the first half of its financial year, despite the marked deterioration in the economy and household spending over the period.



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The company, whose brands include Five Roses tea, House of Coffees, Bakers biscuits and I&J, said on Monday headline earnings per share were expected to grow between 10% and 12% for the six months ended-December. AVI is due to publish its interim results on March 7.

The profit growth is commensurate with that achieved in the first halves of the previous two years, signalling AVI's resilience in a tough consumer environment in which household budgets have been squeezed tight by rising inflation and interest rates, slow wage growth and stubbornly high unemployment.

AVI said profits for the forthcoming period would be lifted by gains from its currency-hedging strategy and selling price hikes across its product range, which offset cost pressures from the sharply weaker rand.

AVI buys foreign currency derivatives to manage potential foreign exchange losses.

The company is primarily exposed to the euro, the dollar and the Australian dollar. About 25%-75% of its estimated foreign

currency exposure on forecast sales and purchases over the following 12 months is hedged, as stated in its annual report.

As well as food products, AVI owns shoe and apparel stores Spitz, Kurt Geiger and Green Cross.

The group said festive season sales were "sound", with Spitz achieving its sales target and its fishing business, I&J, "enjoying improved export margins as a result of the weaker rand".

Last year, the business was hurt by lower catch rates, causing an increase in prices.

Ron Klipin, an analyst at Cratos Wealth, said the profit guidance was in line with most analysts' expectations.

Klipin said AVI's diversified portfolio safeguarded it from cost pressures caused by the weakening rand and the drought in SA that has caused maize prices to more than double in the past 12 months.

"I think AVI is in a better position than Pioneer Foods and Tiger Brands for not purely being in the grain market."

AVI's share price has lost 2.47% so far this year, valuing it at about R26.2bn. Rivals Pioneer Foods and Tiger Brands are down 19.53% and 12.77%, respectively, since January 1, according to Iress data. This gives Pioneer a market cap of about R30.3bn and Tiger Brands R54.4bn.

The all-share index has dropped 6.87% since 1 January.

**Source:** Business Day

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