

High feed costs could force permanent production cuts at Astral Foods

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Astral Foods will consider permanent production cuts if feed costs stay high and South African consumers remain under pressure, with the broiler-chicken maker trimming output for a second time this year and reducing workers' hours to curb costs.

The price of animal feed is expected to continue rising into 2017 following a drought in the continent's biggest maize producer, the Pretoria-based company said in a statement on Wednesday.

Record poultry imports have added to an existing surplus, resulting in lower selling prices as consumers grapple with slower economic growth that has undermined job security and raised debt-service costs.

"The group is also forced to introduce further and more severe cutbacks in the poultry production chain," Astral said. "The impact of the planned production cutbacks will unfortunately negatively impact on the labour force due to the reduction in hours to be worked. If no relief is forthcoming from the key contributors to the current devastating circumstances being experienced by the poultry industry, more permanent downsizing of production will have to be considered."



Chris Schutte.

Picture: [Financial Mail](#)

SA last year had the least rainfall since records started in 1904, damaging crops and raising food prices. Yellow maize, which is mainly used to feed livestock in the country, climbed to a record price on June 17 as the nation is set to produce the smallest harvest since 2008.

The country agreed to allow an annual quota of 65,000 tonnes of poultry imports from the US, which started to arrive in February. It also signed a pact enabling chicken and pork imports from Poland, ending 13 years of negotiations.

A number of mid-to large-sized independent poultry producers are experiencing "severe financial distress and are either currently in the process of closing down their businesses, or are going into business rescue," Astral said.

Land and Agricultural Development Bank of SA, a state-owned lender, sees imports and the drought resulting in consolidation in the country's poultry industry, CEO Tshokolo Nchocho said in an interview last week.

"My prediction is that we are likely to see a lot more mergers and acquisitions happening at poultry, a lot of corporate activity," Nchocho said. "Feed costs account for 70% of their operating profit, so when those go up, it's a disaster."

Country Bird Holdings has made a conditional offer to buy all the shares in Sovereign Food Investments it does not already hold, the companies said on July 11.

Bloomberg

Source: Business Day

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