25 February 2019

Associated British Foods plc

Pre Close Period Trading Update

Associated British Foods plc issues the following update prior to entering the close period for its interim results for the 24 weeks to 2 March 2019, which are scheduled to be announced on 24 April 2019.

Trading outlook

For the half year, other than the expected reduction in Sugar revenue, sales growth will be delivered by all of our businesses. We expect adjusted earnings per share to be broadly in line with the same period last year, with lower net financial expenses offsetting a small reduction in adjusted operating profit.

For the full year, our outlook for the group is unchanged with adjusted operating profit and adjusted earnings per share for the year expected to be in line with last year.

Cashflow and funding

We expect a cash outflow in the first half of the year, consistent with the pattern seen in previous years, driven by the seasonal increase in working capital in our European sugar businesses following the substantial completion of processing campaigns. Capital expenditure will be at the same level as last year. Net cash is expected to be some £300m at the half year, compared to £123m at the first half last year.

Grocery

Revenue and operating profit in the first half are expected to be ahead of last year on an underlying basis, with a further improvement in margin. Including a £12m one-time cost in respect of supply chain consolidation at Twinings Ovaltine, adjusted operating profit for the first half will be in line with last year.

Twinings Ovaltine revenues are ahead of last year, with sales in Australia and the UK benefiting from the continued success of the Cold Infuse teas range launched last summer. Ovaltine achieved good growth in the important market of Switzerland, although sales in Thailand were lower than an exceptionally strong first half last year. We have now successfully completed the transfer of tea production from Jinqiao, China to our existing site in Swarzedz, Poland.

Jordans and Ryvita achieved good sales growth in a number of international markets, while sales of Ryvita Thins grew in the UK, although profit declined due to increased raw material costs. We will benefit from a full period of ownership of Acetum, which was acquired in October 2017. Margins have improved with grape must prices lower than the exceptionally high level last year following a poor grape harvest in 2017.

Work continues to reduce the operating losses at Allied Bakeries. Some bread sales volume will be lost next year as a result of recent customer discussions on pricing. We remain focused on reducing these losses and will take further measures to this end as needed.

At ACH in the US, sales of Mazola corn oil increased through the continued Heart Healthy advertising campaign while margins strengthened due to lower oil commodity costs. Market share gains were achieved in baking products in the US and Canada.

Sales increased at George Weston Foods in Australia and margins improved significantly. Tip Top achieved higher packaged bread volumes while the launch of Abbott's Bakery Thins has been well received. Operating performance at the Don KRC meat business improved with cost reduction initiatives and lower procurement costs delivering a further increase in margin. The integration of Yumi's, the recently acquired premium chilled dips and snacks business, is progressing well. Sales grew strongly over the Christmas period with gains in market share.

Sugar

AB Sugar revenue from continuing operations is expected to be lower than last year in the first half, in line with previous guidance, with lower EU contracted sugar prices impacting our UK and Spanish businesses. As a result, in the first half AB Sugar will record a marginal loss, but operating profit for the full year remains in line with our expectations.

EU stock levels have been tightening during 2018/19 as a consequence of the lower production in the current campaign. A reduction in the European crop area for the 2019/20 season is expected, and so stocks will remain low which should further underpin the current upward trend in EU sugar prices.

The UK campaign is in its final stages and has continued to progress well, benefiting from good harvesting conditions and strong operating performance at all of our factories. Production this year will be some 1.15 million tonnes compared to 1.37 million tonnes last year when beet yields reached record levels. Sales for this year are now largely contracted. Crop area for the 2019/20 season is expected to be between 5% and 10% lower than this year.

In northern Spain, the campaigns at Miranda and Toro are now complete and processing at La Beneza has commenced, with production from beet at some 300,000 tonnes, lower than last year due to adverse weather. The beet sugar shortfall will be compensated by increased production from the refining of cane raws at Guadalete which is expected to yield 170,000 tonnes. Reduced beet prices for the 2019/20 campaign have been notified, and volumes will be contracted with growers this spring. The benefit of these reduced costs will be seen next financial year, and is expected to be partially offset by a reduced crop area.

In China, our two factories at Zhangbei and Qianqi have experienced difficult processing conditions due to very low levels of sugar content in, and purity of, beet. Sugar production is expected to be 10% lower than last year. Domestic sugar prices continue to be low and, as previously advised, the business will make a loss this financial year.

Illovo continued to perform well, with higher production and strong domestic sugar prices. Following wet conditions in the early part of the season, successful extended campaigns have been completed in all countries. Sugar production is now expected to increase again to 1.76 million tonnes compared to 1.7 million tonnes last year, with cane yields further improved and production at the Nakambala mill in Zambia exceeding 400,000 tonnes.

Agriculture

Revenue in the first half will be ahead of last year with growth of UK compound feed sales through increased volumes and pricing due to higher commodity costs.

The closure of the Vivergo bioethanol plant last autumn reduced the availability of co-products, of which Trident Feeds was the sole marketer, with a consequent reduction in operating profit for AB Agri.

AB Vista maintained its position as a leader in phytase in the global feed enzyme market, although margins were held back by increased competition, particularly in the Americas.

Ingredients

Revenues in the first half are expected to be ahead of last year, with progress in operating profit.

At AB Mauri, trading performance in bakery ingredients in EMEA benefited from the integration of Holgran and Fleming Howden which were acquired last year. Price increases were achieved in a number of countries including the important markets of North America and Argentina. Following a sustained period of high price inflation, we have adopted hyperinflationary accounting under IAS 29 for Argentina from the beginning of this financial year.

ABF Ingredients continued to increase revenue in the first half driven by sales of protein crisps, with further share gains in the expanding US market.

Retail

Sales at Primark are expected to be 4% ahead of last year in the first half, at both constant currency and actual exchange rates, driven by increased retail selling space partially offset by a 2% decline in like-for-like sales. With a much higher margin, profit is expected to be well ahead of the same period last year. Early trading of the new spring/summer range has been encouraging.

The UK continued to perform well and we substantially increased our share of the total clothing, footwear and accessories market, with sales 2% ahead of last year. Cumulative like-for-like sales have improved since the January trading update. The effect of low footfall in November was offset by good trading in all other months, and like-for-like sales are expected to be level with last year in the first half.

Sales in the Eurozone are expected to be 5% ahead of last year, with particularly strong sales growth in Spain, France, Italy and Belgium. Like-for-like sales in the Eurozone are expected to show a decline of 3%. In Germany we have strengthened management and plan focused marketing to address trading which continues to be difficult. Preparations are underway to reduce selling space at a small number of German stores in order to optimise their cost base.

Our business in the US continues to perform strongly, driven by excellent trading at our recently opened Brooklyn store combined with like-for-like sales growth. This, coupled with the benefit to store profitability arising from the reduction in selling space at Freehold and Danbury last year, has much reduced the US operating loss.

As expected, the effect of a weaker US dollar on purchases contracted for the first half benefited input costs. With better buying, tight stock management and reduced markdowns, operating margin for the first half is consequently expected to be well ahead of last year.

Foreign exchange contracts are now in place for the majority of the remaining purchases for the year and the strengthening of the US dollar will result in a lower operating margin in the second half. Our expectation for full year operating profit is unchanged.

Retail selling space increased by 0.3 million sq ft since the financial year end and, at 2 March 2019, 364 stores will be trading from 15.1 million sq ft compared to 14.3 million sq ft a year ago. Four new stores were opened in the period: Seville and Almeria in Spain, Toulouse in France and a city centre store in Berlin, Germany. In the UK we relocated to larger premises in Harrow and the Merry Hill store was extended.

We still expect to open 0.9 million sq ft of new selling space in this financial year. In the next quarter a net 0.4 million sq ft of additional selling space is planned, with new stores in Hastings, Bluewater, Belfast and Milton Keynes in the UK, Bordeaux in France, Brussels in Belgium, Wuppertal in Germany and Utrecht in the Netherlands. Our smaller store in Oviedo, Spain will close and selling space will be reduced in the US store at the King of Prussia mall in Pennsylvania. In April we will relocate to new premises in Birmingham which, at 160,000 sq ft, will become our largest store.

Our first store in Slovenia will open in the summer in Ljubljana and, following the signing of the lease for our first store in Poland, we have now signed the lease for our first store in the Czech Republic, which is in the city centre of Prague.

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