

marketplace killer trade

By Moxima Gama



ASTRAL FOODS

Trading at affordable levels

Local poultry producers have to contend with higher maize prices as well as imports from the US. But since consumers' appetite for this meat is increasing, it's not all bad news.

Chicken meat consumption in South Africa is forecast to increase by 38% over the next decade, equating to about 700 000 tons of additional poultry consumption by 2024, according to research by the Bureau for Food and Agricultural Policy (BFAP).

Poultry meat consumption – mainly chicken meat – has increased from 21.5kg per person a year in 2000 to 38.5kg per person a year in 2014, according to BFAP data. By 2024, it would surpass 44kg per capita, it says. The increase in consumption makes poultry meat the most popular protein source for South Africans, and has been driven largely by economic growth and increases in South African households' disposable income.

Astral Foods is a leading integrated poultry producer in

SA whose activities include the manufacturing of animal feeds, production and sale of day-old chicks as well as broiler genetics. The group processes over 200m broilers p.a. at its three abattoirs. Its brands include County Fair, Mountain Valley and Goldi Chicken.

Despite the promising growth outlook from a demand perspective, local poultry producers have been under pressure. Astral said in a recent trading statement that it expects its headline earnings per share for the six months to end March to be between 20% and 30% lower than the corresponding period last year.

A number of factors have negatively influenced its results, which will be released on 16 May, after *finweek* went to print. These include increased feed costs due to the impact of the drought on local maize production; the

high cost of maize imports due to the weakening of the rand against the dollar; and the fact that households' discretionary income is under pressure, thereby negatively impacting demand for poultry products, Astral said.

Local producers also continue to complain about what they describe as high import levels of poultry products. In the period under review, imports contributed to high poultry stock levels, "resulting in extensive promotional

activity on poultry products in the market", Astral said. SA has, for example, recently agreed to a quota of 65 000 tons a year of US chicken imports – a number of US chicken products have been subject to substantial anti-dumping duties in SA for many years – as part of negotiations for the country to remain a beneficiary of the USA's Africa Growth and Opportunity Act (Agoa).

Though the macro environment for the poultry industry currently seems bleak, Astral produces a commodity where healthy demand growth is expected in the coming years. In addition, the stock is trading at a cheap price-to-earnings ratio (P/E) of 6.16 times and a very generous dividend yield of 9.3%.

52-week range:	R88.2 - R194.82
Price/earnings ratio:	6.36
1-year total return:	-22.95%
Market capitalisation:	R5.486bn
Earnings per share:	R20.16
Dividend yield:	8.97%
Average volume over 30 days:	130 819

SOURCE: INET BFA

What next?

Possible scenario: The previous head-and-shoulders breakout had a downside target at 9 570c/share. Now that Astral has met that objective, it's regaining upside and has broken out of its medium-term bear trend, as well as an inverted head-and-shoulders pattern – confirmed above 11 865c/share. The upside target is situated at 14 910c/share. Above 16 070c/share Astral would complete a 100% retracement to 20 680c/share. We recommend a long on Astral at any level above 10 600c/share with increments at every resistance level breakout.

Alternative scenario: The previous bear trend would be resumed below 10 600c/share. Support at 8 820c/share could then be retested.

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Moxima Gama has been rated as one of the top 5 technical analysts in South Africa. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.



Chris Schutte
CEO of Astral Foods

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SOURCE: MetaStock Pro (Reuters)

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