26 February 2018

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 3 March 2018, which are scheduled to be announced on 17 April 2018.

Trading outlook

For the half year, other than the expected reduction in Sugar revenues, sales growth will be delivered by all of our businesses at constant currency. We expect adjusted operating profit to be in line with that for the same period last year, and a lower net financial expense and lower group effective tax rate will lead to progress in adjusted earnings per share.

As already indicated, we expect margin in the second half for Primark to be higher than that in the same period last year. For the full year, our outlook for the group is unchanged with progress expected in both adjusted operating profit and adjusted earnings per share.

Cashflow and funding

We expect a return to an underlying cash out flow for the group, before acquisitions and disposals, in the first half of this year. This will mainly be driven, as in past years, by the seasonal increase in working capital in our European sugar businesses following the completion of processing campaigns and an increase in stock at Primark reflecting the timing of deliveries ahead of Chinese New Year. Capital expenditure will be at the same level as last year. Cash flow for the full year will also be in line with expectation.

We expect a net cash balance for the group of some £100m at the half year reflecting the operational cash out flow and the acquisition, on a debt-free basis, of Acetum in October 2017 for £284m.

Grocery

Revenue in the first half is expected to be ahead of last year at constant currency and, with progress in margin, operating profit will be well ahead driven by Twinings Ovaltine.

Revenues at Twinings Ovaltine are ahead of last year at constant currency with especially strong growth for Ovaltine in its major markets of Switzerland, Germany, South Asia, Nigeria and Brazil, supported by new product launches. Twinings made good progress in the US and Italy although UK sales were held back by strong competition in green teas and infusions.

Volumes at Allied Bakeries in the UK remained strong with good trading over the Christmas period and some progress has been made in reducing the loss for this financial year. Jordans has achieved good overseas growth, especially in Australia, France, Canada and also, with the benefit of recent launches, in New Zealand and Brazil. In the UK, Ryvita Thins has shown continued growth although sales of crispbread have suffered from strong competition. Good progress has been made with the construction of the new Ryvita bakery at Bardney in Lincolnshire which is expected to be commissioned in September. At AB World Foods, Patak's is delivering further share growth following the successful launch of paste pots which had television and recipe book endorsement by Jamie Oliver.

The integration of Acetum, the recently acquired Modena-based balsamic vinegar business, is progressing well. The prospects for this business are good although, following a poor European grape harvest, unusually high raw material costs are likely to impact margins in the second half of this financial year.

At ACH in the US the successful advertising campaign for Mazola, which promotes its favourable health credentials, has driven further volume growth. In the first half, some of the the benefit of this is expected to be offset by higher freight costs following hurricanes earlier in the year. ACH's baking brands have performed well and Mexico is benefiting from improved dollar exchange rates.

Margins continue to improve at George Weston Foods in Australia. The financial result at the Don KRC meat business is ahead with improved trading and factory performance. Whilst competition in bread remains strong, the new Tip Top Thins product, launched last year, is performing well.

Sugar

AB Sugar's revenue and profit is expected to be down on last year, in line with previous guidance, primarily as a result of significantly lower EU prices which are adversely affecting our UK and Spanish businesses. This will be partially mitigated by a much larger UK crop and the ongoing benefits from performance improvement projects across the business.

The EU sugar regime ended on 30 September 2017 resulting in the end of sales quotas and the removal of constraints on exports. Sugar production in the EU during the 2017/18 campaign will be substantially higher than last year as a result of exceptionally high beet yields and increased crop area. As a consequence, the EU has become a net exporter of sugar and domestic sugar prices have fallen. EU ethanol production from sugar has also increased leading to lower ethanol prices.

In the UK, higher yields and a larger crop area have led to an increase in sugar production from 0.9 million tonnes last year to 1.38 million tonnes this year. Looking ahead, there has been a good take up of sugar beet contracts for 2018/19, with almost 60% of contracts now on a three-year agreement. With sugar available from a number of EU countries, competition has been strong but sales for the year are now largely contracted. With lower ethanol prices, the maintenance shutdown for Vivergo has been brought forward into the peak sugar ethanol production season.

In Spain, sugar production from beet is expected to be around 0.4 million tonnes, ahead of last year. Sowing of the 2017/18 southern crop is now complete, with an expected area in line with last year. As a result of higher sugar production from beet, the cane refinery at Guadalete will process lower volumes this year.

Our beet sugar business in China has performed well processing some 1.25 million tonnes of sugar beet. Beet quality has been dramatically improved and the factory operation has been excellent. With good domestic prices, for the full year, we expect an improvement in profit.

Sugar production at Illovo is expected to improve again, to over 1.7 million tonnes, with generally favourable weather conditions and improved management of irrigation and crops. We continue to roll out advanced drip irrigation systems with major capital investments in Swaziland and Malawi. Zambia volumes have disappointed with some shortfall in sugar production. Development of sales in Illovo's regional markets has progressed well.

Agriculture

Increased commodity prices in the UK are expected to drive strong revenue growth in the first half. Profit from grain trading at Frontier has been held back by lower volatility in grain prices and, as a result, profit for AB Agri for the half year, is expected to be in line with last year.

Ingredients

Revenues in the first half are expected to be ahead of last year at constant currency. Good progress is expected at both AB Mauri and ABF Ingredients and margin will again show improvement at the half year.

In North America, AB Mauri is benefiting from the successful integration of the bakery ingredients business acquired last year and improved plant performance. The business in South America has performed well given the challenging economic conditions.

Retail

Sales at Primark are expected to be 7% ahead of those reported last year, at constant currency, driven by increased retail selling space and 9% ahead of last year at actual rates.

Like-for-like sales for the group are expected to show a decline of 1% for the 24 weeks. Sales growth was held back by unseasonably warm weather in October with a significant decline in the like-for-like measure in that month. Encouragingly, like-for-like sales for the 16 weeks to 3 March 2018 are expected to deliver growth of 1% and Primark achieved record sales in the week before Christmas. Early trading of the new spring/summer range has been encouraging.

Primark is performing very well in the UK with sales 8% ahead of last year and a strong increase in our share of the total clothing market. This was driven by a 4% growth in like-for-like sales, an increase in selling space and the breadth of our consumer offering. Our business in the US continues to make progress.

Operating margins in the first half are expected to be close to those in the same period last year with better buying virtually offsetting the adverse effect of the US dollar exchange rate on purchases. Stock was tightly managed again this period and markdowns will be in line with those of the first half last year.

We expect an acceleration in Primark profit growth in the second half as a result of an improvement in margin over the same period last year. This will be driven by better buying and some benefit of the recent weakness of the US dollar on purchases which will more than offset an expected return to a more normal level of markdowns, compared to the very low level achieved last year.

Retail selling space increased by 0.4 million sq ft since the financial year end and, at 3 March 2018, 352 stores will be trading from 14.3 million sq ft which will compare to 13.1 million sq ft a year ago. Seven new stores were opened in the period: Bielefeld, Münster and our second store in Stuttgart, Germany, Charlton and Staines in the UK, Loulé in the Algarve, Portugal and Le Havre in France. In addition, there were two relocations in the UK: a return to the redeveloped Westgate shopping centre in Oxford and a move to a larger store in Rotherham.

We still expect a total of 1.2 million sq ft of new selling space to be added in this financial year. A strong programme is planned for the next quarter with 0.5 million sq ft of additional selling space. New stores are planned for Toulouse and Metz in France, Munich in Germany, Antwerp in Belgium, Valencia in Spain, Brooklyn, our ninth store in the US and in the Westfield London shopping centre at White City. We will also move to much larger premises in Kingston, UK.

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