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HD **Goodman Fielder margins shrink, impairments lead to loss**

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Goodman Fielder margins shrink, impairments lead to A$405M annual loss

By Jonathan Underhill

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Aug. 13 (BusinessDesk) - Goodman Fielder, the food maker under takeover offer from Wilmar International and First Pacific Co, posted a full-year loss after writing down the value of its baking and grocery businesses and recognising costs to exit businesses.

The loss was A$405 million in the 12 months ended June 30, from a profit of A$83.5 million a year earlier. Sales rose 3.4 percent to about A$2.2 billion.

The annual result shows rivalry in the grocery market and soaring costs for milk and wheat are dogging the maker of household brands such as Vogel's bread, Meadow Fresh, Edmonds and Ernest Adams, which had hoped to be in better shape after massive impairments, restructuring and asset sales in 2011 and 2012. Instead, it has recorded a A$337.4 million pretax charge against its Australia and New Zealand baking division and a A$20.8 million impairment against NZ Grocery.

"This is a disappointing result in the context of where the company had expected to be at this point in the strategic plan," said chief executive Chris Delaney. In response, "we have accelerated cost saving initiatives across the business."

Included in the charges were the loss on sale of divested businesses of A$97.3 million, while associated restructuring and cost saving accounted for A$38.2 million.

The biggest slump in earnings came from its New Zealand dairy division, which posted a 47 percent drop in normalised earnings before interest and tax to A$19.9 million, even as sales jumped 20 percent to A$472.7 million. The Ebit margin for dairy, which includes its meats operations, shrank to 4.2 percent from 9.5 percent.

The division was "severely impacted by the record increase in the farmgate milk price during the year," it said. "Goodman Fielder was not able to fully recover this higher input cost through wholesale pricing to its customers, which had a significant effect on margins in the dairy business." The prospect of a lower milk price in the current year, would help earnings recover, it said.

The baking division recorded a 29 percent drop in normalised Ebit to A$35 million as sales rose 3 percent to A$925 million, which the company attributed to rising transport costs and a higher price for wheat. The baking Ebit margin shrank to 3.8 percent from 5.5 percent.

Normalised Ebit for the grocery division fell 20 percent to A$50.9 million on an 11 percent decline in sales to A$448.9 million. The grocery Ebit margin slipped to 11.3 percent from 12.6 percent.

"Our grocery business continued to face a very challenging retail trading environment, which was compounded by our new product development in spreads not being successfully ranged across all retailers," Delaney said.

The company's Asia Pacific division, which includes a poultry business in Fiji and food ingredients in Papua New Guinea, was a bright spot, posting a 15 percent gain in earnings to A$65 million as sales climbed 7 percent to A$354 million. Its Ebit margin widened to 18.4 percent from 17 percent.

Delaney said he expects 2015 "to be another difficult year" as "we continue to refine our strategy and re-align the cost base to deal with these challenges to build our competitive position. We remain committed to building a business which can deliver sustainable growth over the medium term."

Goodman Fielder will pay a final dividend of 1 Australian cent a share on Oct. 1, with a record date of Sept. 15, bringing payments for the year to 2 cents.

The shares fell 0.8 percent to 63.5 Australian cents on the ASX, below the 67.5 cents a share offer made by Singapore-based Wilmar and Hong Kong-listed investment firm First Pacific. The proposal includes a 1 cent dividend.

(BusinessDesk)

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