Tate & Lyle Q3 trading statement

Thursday, 6 February 2020

Participants

Nick Hampton – Chief Executive

Imran Nawaz – Chief Financial Officer

Operator: Hello and welcome to the Tate & Lyle Q3 trading statement with Nick Hampton, chief executive and Imran Nawaz, chief financial officer. My name is Rosie and I will be your coordinator for today's event. Please note this conference is being recorded and for the duration your lines will be on listen only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question at any time. If you require assistance, please press star zero and you'll be connected to an operator. I will now hand you over to Nick Hampton, chief executive to begin today's conference. Thank you.

Nick Hampton: Thank you operator. Good morning and welcome to our third quarter conference call. With me is Imran Nawaz, our chief financial officer. Before Imran and I take your questions, I'd like to make some introductory comments. Overall, I continue to be pleased with the progress in what has been a challenging external environment. We had another solid quarter with the group's underlying performance consistent with the first half and in line with our expectations. In food and beverage solutions, adjusted operating profit performance remains strong. Sales in all regions were ahead of the comparative periods due to good price and mix management with volume overall broadly in line.

Looking at the regions, sales growth in North America and Europe, Middle East and Africa were solid, while growth in Asia Pacific and Latin America were slower. In Sucralose as expected, sales and adjusted operating profits were ahead of the comparative period, reflecting good operational performance and the phasing of shipments from the first half into the quarter. Moving to primary products which remains on track to deliver a steady performance in the full year. In sweeteners and starches, profit was higher than the comparative period with strong performance in manufacturing and supply chain and good cost discipline more than offsetting lower sweetener demand from our Bio-PDO joint venture and continued industrial starch softness. In Commodities, profit was ahead of the comparative period due to the earlier phasing of annual contracts.

The 2020 calendar year bulk sweetener pricing round is nearing completion with margins broadly in line with the prior year. Our three priorities to sharpen, accelerate and simplify the business, continue to support performance and our four year productivity program is on track. Our balance sheet remains robust, giving us the flexibility to invest for long-term growth. Finally, our guidance for the year ending 31st of March 2020 is unchanged. And as I said earlier, while the external environment remains challenging, I continue to be pleased with our progress. And with that, Imran and I will open up the call for questions. And operator I'll hand it back to you. Thank you.

Operator: Thank you. So as a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone key pad. To withdraw your question, please press star two. You will be advised when to go ahead. And the first question comes from the line of Arthur Reeves from Barclays. Please go ahead.

Arthur Reeves: Good morning and thanks for taking my questions. I have two. The first is about volumes in FBS. I think it sounds to me from your statement that you're guiding to flattish volumes. What do you need to do to get those volumes growing? And the second question is around the challenges you've spoken about twice now, Nick. Can you give us some more details about what the challenges are, what they're doing for your business and how you're overcoming them please?

Nick Hampton: Sure. Good morning and thank you for joining the call. Let me take the first question first. So I mean clearly after nine months, I'm very happy that performance is consistent in FBS with the first half. So we had another quarter of progress. Most importantly, solid progress again in North America, we saw EMEA return to revenue growth, which is good. And overall, we saw good mixed management driving revenue ahead of volume. I think the challenge for us now is we're cycling out of some lower margin business in Europe, and getting Europe back into volume growth will help progress in volume. We need to see continued performance and progress in North America. And then over time see emerging markets continue to grow. So it's really the same things we talked about the first half. So overall pleased with the shape of the third quarter and it's very consistent with the first half.

Then when I look at challenges, what I'm really referring to is I think we're seeing a little bit more challenge on sweeteners and industrial starches in North America than we thought. The team is navigating through that very well. We saw continued steady demand for sweeteners in the third quarter, and modest improvements in industrial starches. So we're navigating that very well. And the overall global trading environment is challenging at the moment. So we're navigating through some of the noise on trade barriers, et cetera, but nothing really different to the first half. I think we just think that the external environment is a bit more challenging than we anticipated coming into the year. Imran you want to add anything to that?

Imran Nawaz: No, I think the industrial starch as you mentioned, it's very consistent to what we said at the half and we see a bit of an improvement. But the main drivers of the declining paper market domestically as well as the fact that one of our customers have taken off capacity, we have to cycle through that. And the pricing round demonstrates however, that even in a challenging environment we're able to land flat margins.

Arthur Reeves: Okay. Just to follow up on volumes, when do you think that you will stop shedding European or EMEA volumes? I think you're trying to move out of texturants, but that must end at some point.

Nick Hampton: Look, I expect it to start to cycle out of that next year.

Arthur Reeves: Okay. Thank you.

Operator: The next question comes from the line of Martin Deboo from Jefferies. Please go ahead.

Martin Deboo: Yeah. Morning everybody, it is Martin at Jefferies. I think just three quick questions for me. Just remind me Nick and Imran, on Sucralose, I think we do lap tougher comps in Q4. I mean, my expectation is that Sucralose profits for the year will probably be down, which is a contrast to your Q3 commentary. I just want to be absolutely sure I've got the moving parts right on Sucralose. I just want to pick up, there was a comment on phasing of contracts in Commodities. We're understanding something around early settlement of gluten meal contracts. Would you just explain to me how the phasing benefits the profits in Q3 and how that phases during Q3 and Q4 just to understand how things are trending in Primary? And may I have the privilege of asking the coronavirus question, what are you seeing? Remind me what China materiality is, anything we need to be aware of from that source. Thank you.

Nick Hampton: Okay, so let me, Martin take the third question first and I'll hand the first two questions to Imran. And good morning. Let me start with China and coronavirus. I mean clearly it's a market with huge future potential for us and we're monitoring things closely. The most important thing at the moment is the safety of our team in China and making sure that we can serve our customers as everything starts up, up to Chinese New Year. And obviously there's not much more we can say about that evolution at this point. But in terms of materiality of the group, it doesn't change our view on the full year. It's a market with huge future potential. But as you know, the majority of our business is still in developed markets.

Martin Deboo: And Nick, if I just push you, what is sales materiality of China to the group?

Nick Hampton: I mean, it's a couple of points rather than being any more significant than that.

Martin Deboo: Right. Okay.

Imran Nawaz: I'll take maybe the Sucralose questions first. So again, at the overall when you look at the quarter, we were ahead and really that was driven by two drivers. One was the fact that we had really good operational performance as we've been seeing the last year. And at the same time as you remember, we had a lower volume at the first half. Partly expecting that to come back into quarter three. And that is exactly what we saw as we had indicated. And when I look ahead, last year in quarter four is where we had the entire one off gains. So you remember we had roughly 6 million pounds of gains. All of that we have to lap in the coming quarter.

Martin Deboo: Okay. And Imran just the point on phasing Commodities, you mentioned that it-

Imran Nawaz: Sure. So the trading statement refers to Commodity profits being ahead of last year due to the earlier phasing of some annual contracts. I mean that refers to the fact that for some key customers for corn gluten meal, we were able to close out the contract negotiations earlier than last year. And so the timing gives you a bit of a positive variance in terms of how it works. But essentially when I look at the full year that reverses itself out in quarter four as you lap the fact that you had done similar negotiations last year a bit later and close those out later. I mean stepping back on Commodities themselves, a normalized commodity year, we expect the range of between 10 and 20 million. When I look ahead for the full year, I mean this will probably be a year where we're at the upper end of that range versus the lower end of that range, which is very consistent to what we talked about at the half as well.

Martin Deboo: That's very helpful. Thank you.

Operator: The next question comes from the line of Anton Brink from Kepler. Please go ahead.

Anton Brink: Yes. Morning gentlemen, two questions from my side. Firstly, can you comment on the reasons for weaker sales growth in LATAM and APAC FBS? Secondly, it seems sugar harvest has completely been filled in the US, is that in any regards having an impact on your business and also to negotiations for new unit margin routes?

Nick Hampton: So let me take the second question first. As we said in the statement, the contracting round for calendar year 2020 played out as we expected. And we came out with our margins broadly flat versus the prior year, which effectively means that we passed through the net corn cost. So we sort of pursued normal contracting round despite the record sugar crops and we're pretty much through the contracting round now. So we're not seeing any material impact. Imran I don't know whether you want to comment on Asia and Latin America.

Imran Nawaz: Yeah. Look, I mean, again, I think to me the key is that what we saw was revenue growth in each and every one of our regions. And when I look at emerging markets, as you know growth tends to be a little bit lumpier. And in this case, what we saw was some phasing in LATAM as shipments will fall into Q4 as opposed to Q3. And at the same time we did see some softness in China Dairy.

Anton Brink: How big is China Dairy?

Imran Nawaz: Well, it's a significant part of the China business. But as Nick mentioned earlier to the earlier question, China itself is not a significant business at the moment of the total high.

Anton Brink: Okay, thank you.

Operator: As I said, a reminder, please press star one now if you would like to ask a question. Thank you. To standby.

Nick Hampton: Okay, thank you operator.

Operator: My apologies. We do have a couple of questions in the queue. Are you still happy to take those?

Nick Hampton: Okay, go ahead.

Operator: Thank you. So the next question comes from the line of James Targett from Berenberg. Please go ahead.

Nick Hampton: Morning James.

James Targett: Morning. Thanks for squeezing me in. Yeah, a couple of questions. Firstly, just on the North American FBS market, some of your peers have been talking about a further slowdown in multinational customer business and also weakening of the dairy segment. I just wondered if you could contextualize that in regards for Tate's Q3. And then secondly, on FBS profitability. Is there any change in the magnitude of margin expansion and profit growth we saw in each one, is there anything, the top line seems to be a similar dynamic. So I just wondered in terms of profitability for H2, are you expecting anything different? Thanks.

Nick Hampton: So firstly in North America, we continue to see good progress in the third quarter. I mean clearly categories, they're up and down. As always, there has been some market softness in dairy that's been well reported but our focus is on expanding our mix of business into growing segments and that's playing out well for us so far this year. So we saw continued volume momentum and good price mix management, all very solid progress. If I take your second question on profit, when I look at the shape of FBS, we saw very consistent shape in Q3, half one, and we're anticipating that to continue through the full year. So there's nothing really that's changed in terms of the kind of flow through from the top line to the bottom line, which is very encouraging to see. It's part of what we're trying to achieve.

James Targett: Great. Thanks.

Operator: The next question is a follow-up from the line of Martin Deboo. From Jefferies. Please go ahead.

Martin Deboo: Yeah, morning again everybody. Can I just ask you a question about the sort of international trade environment? The relevance of the question is mainly to the feed stuffs markets specifically between the US and China, I suppose the lower level. Just a quick reminder of where we are on the USMCA. So it's just a very sort of difficult subject to research the value perspectives on where are we on sort of international trade flows of commodities and any implications for you from that positive or negative.

Nick Hampton: So encouraging progress on USMCA, so it looks like it's moving forward to ratification across the US, Mexico and Canada. And not signed finally yet, but all of the signs seem to be that it's going to get closed out in the near future. So that's obviously positive for us because it maintains open borders between the US and Mexico for the products that we move across the border. On the US China, lots of ups and downs, but more positive noises. There was even news overnight of reducing of tariffs. And the flow of agricultural goods seems to be loosening, which can only be a good thing for the business in the longer term. But as you know there's a long way to go before that gets resolved.

Martin Deboo: Okay. Thank you very much. Thank you.

Operator: We have no further questions in the queue. So Nick, I'll hand the call back to you for any concluding remarks.

Nick Hampton: Thank you operator and look everybody, thank you for joining the call and for your questions. So to summarize, I guess the business continues to perform well. We delivered another solid quarter of performance and importantly, our full year guidance remains unchanged. And with that, we look forward to seeing you all again on the 21st of May at our full year results presentation. Thank you for joining the call again and have a good day. Thank you. Operator.

Operator: Thank you everyone for joining today's conference. You may now disconnect your lines. Please stay connected and await further instruction. Thank you.

[END OF TRANSCRIPT]