Press release

AAK’s Interim report for the third quarter 2019 – continued profit growth on the back of a strong Food Ingredients performance

AAK Group

- Total volumes for the quarter amounted to 571,000 MT (564,000), organic growth of 1 percent (4).
- Operating profit, including a positive currency translation impact of SEK 24 million and acquisition costs of SEK 6 million, reached SEK 563 million (526), an improvement of 7 percent. Excluding acquisition costs, operating profit per kilo improved by 8 percent to SEK 1.00 (0.93).
- Net result amounted to SEK 398 million (359), an improvement of 11 percent.
- Earnings per share increased by 10 percent, to SEK 1.53 (1.39).
- Cash flow from operating activities amounted to SEK 130 million (524).
- Return on Capital Employed (ROCE), R12M, was 15.1 percent (15.8 at December 31, 2018).

Business areas

- Food Ingredients – operating profit improved by 13 percent to SEK 364 million (321).
- Chocolate & Confectionery Fats – operating profit reached SEK 206 million (206).
- Technical Products & Feed – operating profit reached SEK 33 million (37), a decrease of 11 percent compared to the very strong corresponding quarter last year.

CEO’s comments

Our profit growth continued in the third quarter but at a slower pace than during the first half of the year. We continue to improve our margin and operating profit per kilo. Adjusted for acquisition costs, we reached a level of SEK 1.00 in the third quarter, a milestone for AAK. Food Ingredients was the main driver with a strong year-over-year profitability improvement.

Organic volume growth was 1 percent (4) with both Food Ingredients and Chocolate & Confectionery Fats reporting modest volume growth.

Operating profit, adjusted for acquisition costs, amounted to SEK 569 million, an improvement of 8 percent compared to last year and an all-time high operating profit for a third quarter. Earnings per share increased by 10 percent.

Food Ingredients continued its strong trend with an improved operating profit of 13 percent. Dairy and Bakery led the way and Foodservice also reported a good contribution. The performance of Special Nutrition was mixed. High-end solutions continued to grow, although at a slower pace, while we experienced lower volumes for our semi-speciality solutions. We have an impact from lower birth rates in China as well as from destocking by some customers.
Chocolate & Confectionery Fats had a challenging quarter with limited volume growth. There has been an increased pressure from customers to roll existing contracts forward. We have also, as previously communicated, used more of our low-yielding shea kernels which has increased production costs. The last batches are expected to be used during the fourth quarter. Our investment projects to increase capacity and strengthen our supply chain are progressing according to plan and are expected to be completed by year-end. Sourcing of new kernels in West Africa has started very positively. With new kernels in place and additional capacity, we expect to reach normal cost levels within the business area by the middle of the first quarter next year.

As for Technical Products & Feed, both our fatty acids business and our feed business declined compared to the very strong corresponding quarter last year. We have lifted profitability to a new level. While the corresponding quarter last year was a new record, this quarter was still at a good level compared to earlier years.

The launch of AkoPlanet™, our portfolio with tailor-made solutions for food manufacturers developing plant-based alternatives, has generated strong volume and profit growth, although from a small base. Our pipeline of customer co-development projects has more than doubled between the second and the third quarter.

During the quarter we have acquired 80 percent of Soya International (Europe) Ltd. The UK-based company focuses on the sourcing, processing and distribution of non-GMO semi-speciality and speciality lecithins – key ingredients for many customers within our core segments. We have also acquired an additional 5 percent of the shares of AAK Kamani, the joint venture in India between AAK and Kamani Oil Industries Pvt Ltd. AAK now holds 69 percent of the shares.

We are well positioned with our offer of plant-based, healthy, high value-adding oils and fats solutions, using our customer co-development approach. We continue to see favorable underlying trends in our markets and we remain prudently optimistic about the future.

Press and analyst conference
The Interim report for the third quarter 2019 will be presented today, October 24, 2019 at 10:00 a.m. CET at a press and analyst conference. For participation, please see instructions under the Investor tab at the AAK website, www.aak.com.

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