

Profitability of the Merino sheep

by AC Geyer & JL Venter

Sheep farming is practiced throughout the country. There is an estimated 24.5 million sheep distributed throughout South Africa and 86% of the total number is found in the Eastern Cape (29%), Northern Cape (24%), Free State (20%) and Western Cape (12%). The percentages for the other provinces are: Mpumalanga – 7, KwaZulu Natal and North West – 3 each, Limpopo and Gauteng – 1 each.

South African wool production

Wool is produced throughout South Africa under extensive, semi-extensive and intensive conditions, but the main areas of production are situated in the semi-arid and arid regions of South Africa. These provinces contribute to 90% of South African wool production, which has halved from the 1970 to the 2011/12 season. The top three wool producing provinces of South Africa are (mil.kg & %) the Eastern Cape (15.5, 34.3), Free State (10.3, 22.8) and Western Cape (9.1, 20.0) where 77% of the wool was produced in the 2013 season.

The South African wool clip exists mostly of Merino, but course and coloured types are also produced and marketed on a limited scale. Merino wool is white and free of kemp and has an average fibre diameter of less than 27 micron (μm). For the 2013/14 season, fleece wool comprised 76% and pieces, bellies and lox 8% each.

Enterprise analysis for the extensive Merino sheep ewe and lamb production system

The enterprise analysis is an in-depth analysis of the financial performance of the different enterprises in a farm business. The level of detail and the comprehensiveness of an enterprise analysis could vary according to circumstances, preferences and the reasons for compiling it. The enterprise analysis comprises of the Gross Production Value (GPV) representing the income part and the Directly Allocatable Variable Costs (DAVC). The difference between the GPV and the DAVC results into the Gross Margin (GM).

Gross Production Value

The GPV consists of the following: Product Income (Wool), Trade income (Animals and/or meat), Purchase of animals and Capital change (Difference between the value of the Closing balance and the value of the Opening value of the animals). Assumptions used: Wool growth of 12 months; Grease wool price: young ewes R75/kg, breeding ewes R 70/kg, Rams R 65/kg; Reproduction: lambing 98.30%; weaning 93.48%.

The income part of the analysis indicates a total GPV of R888/SSU consisting of the product income (wool) of R288/SSU and the trading income of R632/SSU.

The product income (Wool) comprises 32.5%. The rest of the income (67.5%) is generated from the trading of animals/meat. The NWGA of SA study group results for 2014/15 confirmed

the average wool: meat ratio for Trompsburg as 32.5% wool and 67.5% meat and for Brandfort 37% wool and 63% meat.

Directly Allocatable Variable Costs

These costs are directly related to the enterprise. The DAVC is R155/SSU consisting of feed (R90 = 58%), animal health (R27 = 17%), transport and marketing (R17 = 11%), casual labour (R8 = 5%), and miscellaneous (R13 = 9%). The items to be intensively managed are feed and animal health costs which contribute 75% of the DAVC for this type of extensive ewe and lamb production system. These results are confirmed by the NWGA study group results.

Gross Margin

The GM is the indicator of the profitability of the specific enterprise. The GM was R733/SSU. The GM for the Brandfort and Trompsburg study groups averages for 2014/15 resulted in the range of R650/SSU to R750/SSU.

Production cost ratio

The production cost ratio is the DAVC as a percentage of the GPV. The production cost ratio is 17.5%. For the 2014/15 season the production cost ratio for Trompsburg was 22.4% and for Brandfort 29.3%.

Enterprise analysis *

Gross Production Value (GPV)	R/Sheep	R/LSU	R/SSU
a. Product Income	239.48	1,924.71	288.69
b. Trade Income: Gross sales	524.27	4,213.53	632.00
Less Animals bought	26.99	216.94	32.54
c. Capital change	-0.09	-0.75	-0.11
Total GPV	736.67	5,920.55	888.04
Directly Allocatable Variable Costs (DAVC)			
Feed	74.76	600.82	90.12
Animal health	22.67	182.23	27.33
Transport & Marketing	14.22	114.25	17.14
Other	17.18	138.08	20.71
Total DAVC	128.83	1,035.38	155.30
Gross Margin	607.84	4,885.17	732.74

*Comprehensive tables and calculations available from the authors

Conclusion

The Merino has proven very profitable over the long term. Although meat is the major income generator, it is of critical importance to ensure production of good yield and quality wool. Wool ensures a sustainable long term income and a profitable Merino.

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