Pioneer Foods: Still plenty left to chew on

By Stafford Thomas

18 Nov 2016

Since taking the helm at Pioneer Foods in 2013, Phil Roux has made great strides at the company. Under his watch the former food sector also-ran's operating profit margin has risen from a sorry 4% to over 11%, its headline EPS have gone up 125% and its dividend has jumped over 150%.

Picture: Financial Mail

Roux is far from satisfied, however.

"We have just completed our corporate strategy review," says Roux. "We asked the question: is our business portfolio fully optimised? The answer is a definite no."

Roux is setting demanding goals for the R20bn annual revenue company, which includes what he terms its "power brands" Weet-Bix, Bokomo, Liqui-Fruit , Sasko, Spekko, Ceres, White Star and Safari.

"I want the group operating margin to be at least 13.5% by the end of 2018," Roux says. "There is still a lot more to do to drive cost efficiencies."

Also a priority is reducing the relative importance of maize and wheat-based essential foods such as maize meal and bread, which account for about 60% of group revenue and operating profit. It could spell a big acquisition ahead.

"Margins and cash flow on essential foods are high but the market perceives them to be commodities," says Roux. "We invest heavily in our essential foods brands but the moment you have any exposure to raw material price volatility the market can hammer you."

Despite facing inevitably tougher competition from Tiger Brands, now led by the highly experienced Lawrence MacDougall, Roux believes Pioneer can grab market share.

"We must build our brands," says Roux. "We have an overall 32% share of the 18 categories we are in. Every percentage point rise equals an extra R1bn of sales at the retail level."

Roux is confident Pioneer has the right people in place to meet the challenge. "I have a highly capable leadership team," says Roux, who shrugs off doubts that may be aroused by the recent resignation of Cindy Hess, CFO since March 2015.

Indeed, it seems Hess will not be missed. "A CEO and CFO must be a perfect fit," says Roux. He does not spell it out, but that perfect fit between Hess and him does not appear to have been there.

Whatever the case, it is not affecting strategy. "We are busy on the corporate activity front," says Roux. He is armed with up to R4bn in debt capacity on Pioneer's almost ungeared balance sheet.

Acquisitions may not all be in SA. "We are looking closely at East Africa," says Roux. "I also like Eastern Europe."

Pioneer is making solid headway in the UK as well, where it has two Bokomo factories producing private-label wheat breakfast biscuits, muesli and granolas for a number of leading grocery chains. Already a sizeable operation, it is generating about R1bn in annual revenue.

However, Roux's goal is to reduce the importance of private-label manufacture. "I want our own branded products to represent 50% of revenue," he says.

The first step came in August, with the £7.5m acquisition of Stream Foods, producer of a range of fruit snacks under the Fruit Bowl brand. "It will add sales of R250m," says Roux.

"We will be doing more bolt-on acquisitions."

Pioneer has a sound growth strategy, which holds great promise. But for now investors in the food group will need to be patient.

"It has been a year out of hell," says Roux, referring to the slump in domestic maize production caused by the crippling drought. To hedge against an expected 1.2Mt maize production fall, Pioneer had no option but to buy maize forward.

Though maize prices are now going down in the hope of early rain, Pioneer will have to wait for the futures contracts bought at higher prices to unwind. "It will make the next six months a little rough for us," says Roux.

It could spell a period of weakness ahead for Pioneer's share price. If this comes, it will be weakness that can be used as a buying opportunity.

Source: Financial Mail