Escalating costs hammer Pioneer

By Fifi Peters   15 Feb 2016

Pioneer Foods, the JSE's second-largest food producer with a market capitalisation of more than R31bn, said on Friday it had no choice but to pass on the burden from soaring grain prices, rand weakness, and high wheat import tariffs to the already pressured South African consumer.

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The company, whose products include Sasko bread, Bokomo cereals, Spekko rice and White Star maize meal said input costs escalated 74% in the four months to January, hitting volumes and margins.

The surge in wheat import tariffs from R156 to R911 per tonne over the past 12 months was worsening the effect of the drought. The rand lost nearly 30% against the dollar over the same period.

"Pioneer Foods has made every effort to respond to these vagaries as responsibly and assertively as possible," the company said.

Despite "sustained effort to contain costs (and) to price appropriately … significant price recovery has been unavoidable", said the manufacturer, which comes second to Tiger Brands' nearly R60bn market cap.

Pioneer, whose share price is down 15.7% on the JSE this year versus the 2.6% decline of the JSE's food producers'

index, warned first-half earnings would be "largely muted", with rand weakness and the associated cost-push effect likely to accelerate inflationary pressure on all food manufacturers.

SA is expected to reap the smallest maize harvest in nearly a decade this year due to the persisting drought.

Like other consumer goods companies such as Clover and SABMiller, Pioneer's juice products, which include Ceres and Liqui Fruit, benefited from the hot, dry conditions. The group said this portfolio had delivered "excellent results" in the period under review.

Pioneer's international division, which contributed 19% to operating profit for the six months to March, also traded well. Fruit exports, particularly, benefited from a more favourable exchange rate.

Source: Business Day

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