

# Rainbow Chicken tickles investors' taste buds

A new-look Rainbow Chicken is taking shape amid enthusiasm from investors who have boosted its share price by a third since November. Driving the change is Rainbow's R1bn acquisition of Foodcorp and a R3,9bn rights issue, setting the scene for more positive developments.



Foodcorp adds turnover of R7bn and diversification away from SA's beleaguered broiler chicken sector through brands such as Bokomo (biscuits and cereals), Sasko (grain products), Ceres (beverages) and Heinz (ketchup and convenience foods).

Foodcorp has the makings to grow it into a far larger food-manufacturing player, says Stanlib industrial research head Theo Botha. Remgro has a 73,4% stake in Rainbow.

Part of his reasoning revolves around Remgro's 25,8% stake in Unilever SA, worth R7bn.

"Unilever has the right to repurchase Remgro's stake," says Botha. Before acquiring Foodcorp, he says, a repurchase by Unilever would have left Remgro with no food manufacturing interests.

Growing a food manufacturing business in SA is no easy task in a market where brands and market share are fiercely defended. Scope for acquisitions is also limited.

The future for an ambitious Remgro-driven Rainbow could lie north of SA's borders. Rainbow chief executive Miles Dally recently alluded to targeting expansion in "greater sub-Saharan Africa".

Remgro has helped pave the way into Africa through Pembani Remgro Infrastructure Fund's partnership with US private equity firm Carlyle to invest US\$210m into Export Trading Group (ETG). Based in Tanzania, ETG has 22 processing plants and 600 warehouses in 30 African countries. In the year to March 2012 it reported revenue of \$884m.

Rainbow's share-price rebound has been paralleled by a rise in rival Astral's share price since November. Initially up 24%, Astral's rise has faded to an 11% gain, perhaps on the realisation that the broiler industry's woes are not over.

Two negatives are hitting its margins: high maize-based feed costs and damaging competition from imports.

Feed costs, which make up about 70% of total costs, jumped 40% in 2012 on the back of a soaring maize price, says SA

Poultry Association chief executive Kevin Lovell. Under SA's parity pricing regime the maize price is set by the US futures market.

The outlook for prices is fraught with risk. On 10 January, the UN said global grain prices would remain high in 2013 and warned of the threat posed by low stock levels.

The SA yellow maize price is now R2,300/t little changed from a R2,400/t average in 2012.

Chicken imports from Europe are the industry's other big problem.

"There is a flood of imports from Europe," says Lovell. "Over the past three years imports from Europe have grown from a negligible amount to 10% of SA consumption. The longstanding imports from Brazil also equal about 10% of consumption," he says.

He says European exporters are selling below production cost and should be subject to anti-dumping tariffs. These were imposed on a temporary basis in June 2012 by the International Trade Administration Commission of SA (Itac) but its recommendation that they be made permanent was rejected by trade and industry minister Rob Davies.

Source: *Financial Mail* via I-Net Bridge

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