

Rainbow looking for Zambia's pot of gold

By [Zeenat Moorad](#)

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Following its acquisition of a stake in Zam Chick from Zambian agricultural producer Zambeef, Rainbow Chicken on Thursday (30 May) said it had reached an agreement with Zambeef to establish a joint hatchery operation for the supply of day-old chicks.



Rising commodity prices, inflation and a deluge of cheap chicken imports from Brazil and the European Union (EU) have put pressure on local poultry producers, forcing them to diversify into other markets for growth.

Rainbow and Zambeef will own 51% and 49% respectively of the new "Zamhatch" business, which is expected to start operating over the next two to three years.

Avior Research equity analyst Jiten Bechoo said many of SA's poultry producers were looking to Africa and Zambia, in particular, for the next wave of growth.

"It's a good target market. The country's economic prospects are likely to lead to an increase in the per capita consumption of chicken. The cost of production there is a lot lower because maize is subsidised and they're self-sufficient in terms of soybean," he said.

Rainbow's rival, Astral Foods operates in the Zambian market through Tiger Animal Feeds, a feed supplier and its TigerChicks business, a breeder farm and hatchery.

In February, Rainbow said its deal with Zambeef to buy a 49% stake in Zam Chick would allow the companies to work together to take the Zambian poultry producers to a "new level".

Difficult times for producers

In what it described as the most difficult period in the history of the South African poultry industry, Rainbow Chicken in February reported a 74.1% drop in first-half profits and cancelled its interim dividend.

"Feed costs translate to a 17%-odd increase for us on a rand per ton basis and we can't recover that in the market. In terms of imports, there's no doubt that there's dumping taking place. Brazilian exports are now finding SA as a very good home. Most countries in the world have some form of protection. We don't," chief executive Miles Dally said at the time.

SA's big five local chicken producers - Astral Foods, Rainbow Chicken, Sovereign Foods, Afgri and Supreme Foods, as well as the South African Poultry Association are engaging with the government for the implementation of higher duties on imported chicken products.

Rainbow's 64.2% buyout of SA's third-largest food producer, Foodcorp, earlier this year was seen as a good move by analysts, who said the deal would provide some defensiveness to the company.

Foodcorp's brands include Yum Yum peanut butter and Ouma Rusks.

Rainbow, which is SA's largest processor and marketer of chicken, is a 73.4% owned by Remgro.

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