

# Unilever is Remgro's star performer

Consumer brands giant Unilever SA is undoubtedly the most attractive unlisted investment currently held by conglomerate Remgro.



Certainly Unilever is not the asset foremost in mind when thinking of Remgro's sprawling portfolio. But the 25,8% stake in Unilever - worth R8,2bn - actually ranks as Remgro's fourth-biggest asset. In fact it might surprise a few observers that the Unilever holding is larger than Remgro's investments in the recently enlarged Rainbow Chicken, liquor giant Distell and banking group FirstRand

In the six months to end-December Unilever produced earnings of just around R1,1bn off an 11,5% increase in turnover to R8,6bn. Remgro's share of headline earnings was R277m.

This means Remgro appears to be valuing its stake in Unilever at a reasonable price:earnings ratio of around 14,7, which compares favourably with listed consumer brand stalwarts Tiger Brands (16,5) and AVI (15,7).

Remgro's holding in Unilever, however, needs to be viewed against recent developments at Rainbow.

Ironically, Remgro's stake in Unilever stems from an old investment holding in Hunt Leuchars & Hepburn (HL&H) - which until the late-1990s housed the company's food interests that included Rainbow Chicken and spice specialist Robertsons. When Rainbow's protracted turnaround during the 1990s dragged down HL&H's performance, it was decided to split the profitable operations from the ailing chicken business.

Robertsons ended up in a joint venture with Bestfoods, which later became part of the Unilever Bestfoods arrangement. In 2007 Unilever home and personal care and Unilever foods were merged to form Unilever SA with Remgro as a significant minority shareholder.

## Rainbow carrying Remgro's food interests

Lately Rainbow has been mobilised as the vehicle to carry Remgro's food interests, which were recently bulked up considerably with the acquisition of Foodcorp.

Rainbow - following a R3,9bn rights issue earlier this year - has swelled to over R10bn in market capitalisation. Remgro's

share of Rainbow is worth over R7,6bn and is likely to grow as further bolt-on deals smooth the cycles in the poultry sector.

The big question is whether a more imposing Rainbow (which will presumably be renamed Rainbow Foods) won't increasingly find itself competing against Unilever's array of food brands.

Remgro's chief executive Jannie Durand, speaking at a recent investment presentation, said he believed any brand overlaps between new-look Rainbow and Unilever would be limited to the condiments side (more specifically mayonnaise).

Indeed, Unilever's food brands lean to the savoury side (Robertsons and Knorr) as well as spreads (Ola, Rama and Stork) and teas (Lipton, Joko and Glen). Foodcorp has a strong niche in flour, bread (Sunbake), biscuits (Ouma rusks), peanut butter and pet food.

Durand was adamant developments at Rainbow would not prompt Remgro to consider selling its stake in Unilever. "If we could buy more shares we would," he said.

It seems unlikely Remgro will be able to snaffle more of Unilever. But is it really worth completely discounting a chance that Unilever takes a liking to the new-look Rainbow, and offers extra equity to bring those brands on board?

Source: *Financial Mail* via I-Net Bridge

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