

Challenges face Pioneer this year

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Trading across Pioneer Food's product categories is expected to be challenging for the rest of the year as consumer spending remains constrained, the company, which reported its half-year results on Monday (20 May), said.



Escalating utility, education and transport costs have put a strain on households, eroding retail spending power. This has in turn led to fiercer competition among key manufacturers in the retail food industry, including Tiger Brands and AVI.

"Consumers are in distress, I don't know if people realise the extent of it. One mustn't under-estimate what commodity inflation has meant to essential foods," said Pioneer's chief executive Phil Roux

"Across the categories that we participate in there's been very little category growth. We've seen some volume growth but that comes at a price because it's combative - we're all trying to take market share from each other in an effort to grow," he said.

"With the rand at R9.40/\$ further cost pressure will be seen. Where do we take it to? Ultimately it's the consumer or you compress your own margins if you can't take the requisite cost out at the same rate," he said.

The company, whose brands include Bovril and Weetbix, reported a 0.6% decrease in headline earnings per share to 218c for the six months ended March.

The results were affected by a once-off cost relating to the implementation of the first and second phases of an empowerment transaction. Operating profit declined by 7% to R582m.

Margins, costs create pressures

"Margins compressed as pricing under-recovered input cost pressure particularly in grains, broilers and eggs, given that volume preservation was a key consideration amid constrained consumer spending," Roux said.

The Sasko division came under significant pressure. Operating profit fell 19% to R364m.

Daniel Isaacs, an equity analyst at 36One Asset Management, said that maize and wheat had been "big" cost pressure

items for the group and it had not been able to recover these costs even with price increases.

"A lot depends on the outlook for maize and wheat and both are pretty much dependent on the global markets and on the American crop plantings. We've recently seen maize easing up although that is mitigated to a large degree by the weakness of the currency.

"The maize price may drop if the American crop is as big as everyone expects. The wheat price is a more longer term sticky situation. Wheat-based products are where Pioneer gets the majority of their revenue and profit," Isaacs said.

Quantum Foods, formerly Agri Business, also took a knock as broiler prices remained suppressed by the large volume of imported chickens while egg prices were subdued by high layer numbers. Although revenue increased by 16% to R1.77bn, an operating loss of R33m was recorded.

Ceres Beverages provided a fillip, reporting a 4% gain in revenue to R1.61bn. Operating profit was up by 97% to R169m.

"Exports in this business grew significantly and they had significant pricing because of the currency. It will come down in the second half, however, because it's a seasonal business," Isaacs said.

Bokomo Foods grew revenue by 14% to R1.67bn.

Roux took over as chief executive at Pioneer in April, replacing André Hanekom.

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