

Deals indicate an agricultural sector in flux

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The long-awaited consolidation of SA's fragmented agribusiness sector has finally got under way with some vigour.



In the past few weeks a handful of deals have been concluded - the most eye-catching being proposals by shipping and logistics group Grindrod to snap up strategic stakes in value-laden agricultural services group Senwes and Lichtenburg-based co-op NWK.

But several other deals confirm the agricultural sector is in a state of flux.

These include proposals by Pioneer Food Group to unbundle its poultry and egg business, Quantum Foods, within 12 months; a takeover bid (rumoured to be the Land Bank) of diversified agribusiness Afgri; and the emergence of Rovic Agri as a new strategic shareholder in agri-services business Ububele.

Also worth mentioning is that Crookes Brothers made a mint cashing out of wheat and sheep farms in Bredasdorp and indicated the company would use the R160m windfall to seek new opportunities in southern Africa.

These transactions could themselves spur further corporate action.

Considering a much more aggressive Remgro is an anchor shareholder at Grindrod, it seems safe to presume the Senwes deal could be a catalyst for further transactions. In terms of the reshuffling of existing interests, it is worth remembering that aside from the obvious links with Remgro's RCL Foods (formerly Rainbow Chicken), there is also the rather juicy TSB sugar business tucked away in Remgro's pockets. Grindrod seems to have plenty incentive to broaden its agribusiness hub.



Grindrod's chief executive Alan Olivier notes that the company's agribusiness, which dabbles in various agricultural commodities, has under-performed in an over-traded market. "The number of traders has doubled, which has left margins and volumes under pressure," he says.

In the six months to the end of June, revenue of R10.3bn translated into earnings of less than R1m compared with R15.5bn and R96m in the corresponding period in 2012.

Rationalisations coming

"There will be rationalisations in the agribusiness and these will present significant synergies for us to diversify. We'd like to have an agribusiness segment that is not subject to seasonal fluctuations," he says.



If the play for under-performing Afgri is successful, it is almost certain the buyer (especially if speculation around the Land Bank is sound) is coveting the highly profitable financial services assets.

That might suggest there's a good chance Afgri's new owners would offload the substantial equipment and grain storage business as well as the retail joint venture with Senwes. Perhaps most intriguing is the persistent rumour that Afgri is looking to deal decisively with its hapless poultry business.

This is where a stand-alone Quantum Foods could come in, possibly looking at a merger with, or takeover of, Afgri's poultry operations ahead of the proposed unbundling and separate listing. Economies of scale might well be a key to turning both

Quantum and Afgri's poultry fortunes around.

Though a relatively small proposition, Ububele is nonetheless interesting since its new strategic shareholder, Rovic, is intent on building up a niche in agri-sciences (such as fertilisers, pesticides, and irrigation).

Potential

Ububele's potential is perhaps underlined by the fact that Rovic needed to work hard to see off a rival bid from the rather imposing African Agricultural Fund. The intrigue at Ububele will centre on whether Rovic looks to inject its own assets into the listed vehicle - most notably Rovic & Leers, which incorporates fertiliser spreaders, front-end loaders, ploughs, planters and other machinery.

A clean-up is already under way, with Ububele committing to sell off its holding in a Namibian airline caterer.

The flurry of activity does focus some attention on PSG-controlled Zeder Investments, which can take much of the credit for enlivening the local agribusiness sector.

Zeder's hand obviously pulled the strings in Pioneer's proposal to unbundle Quantum, but of more immediate interest will be the company's intentions with regard to further bolstering ownership in its core portfolio holdings, such as fruit exporter and logistics specialist Capespan and farmers' retailer Kaap Agri (also known as the "Boere Massmart").

Capespan would fit well in the new-look Grindrod agribusiness arrangement. Kaap Agri has the potential to become a national retailing presence through its slick Agrimark brand. Then again, the time might also be ripe for Zeder to dangle its minority holdings in businesses like Suidwes.

Source: Financial Mail via I-Net Bridge

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