

# Pioneer suffers staples-only pinch

By [Michael Bleby](#)

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Pioneer Foods, the maker of Sasko bread and Bokomo cereals, faces a slow start to the year as people buy more staple foods which have dropped in price, but hold off on luxury items.

Paarl-based Pioneer, slapped with a R196m fine earlier this month by the Competition Tribunal for fixing bread prices, said on Friday, 19 February 2010, sales volumes had grown “satisfactorily” in the first four months of the financial year.

MD André Hanekom said: “If you look at our basket (of goods), some are up, some are quite significantly down. We're satisfied given the environment we're in.”

Sales of basic products have grown as prices have fallen, with wheaten products down 24% on the year-earlier period, rice down 24% and bread 2% lower.

But like its larger rival Tiger Brands, which last week predicted no pickup until the second half of the year, Pioneer is struggling to sell luxury goods, such as Ceres juices and Bokomo desserts.

Independent stockbroker Ron Klipin said: “Things are still very, very difficult. Unemployment is still very, very high; people are buying basics, basics, basics.”

Pioneer has been paying back debts and reduced its debt:equity ratio to 14% by its September year end, from 34%. This has helped free up capital and it plans to spend R900m this year on upgrading facilities such as its Polokwane bakery and its rice production facilities. Lower prices for raw materials were also freeing up operating capital, Pioneer said in its trading update. It gave no guidance for first-half profit, saying only that earnings growth was expected, “but to what extent is uncertain at this early stage”.

In a separate statement after Friday's annual general meeting, Pioneer said its board had told management to “bring the (bread price-fixing) matter to a swift close”, suggesting it would pay the fine and not contest the ruling.

Hanekom could not confirm this, however, saying the matter would only be settled for sure on Wednesday, 24 February, at the expiry of a 15 working-day window for appeal by either Pioneer or the Competition Commission. The commission, which could challenge the fine for being too lenient, declined to comment on Friday.

Pioneer also said it was seeking a settlement with the commission over a complaint about milling operations. Unlike the bread case, in which it refused to co-operate with the commission — and was slated by the tribunal for giving untruthful

evidence — Pioneer is seeking a negotiated settlement and is preparing shareholders for a fine: “A maximum penalty based on 10% of the 2006 national revenue from maize and wheaten flour sales may be handed down.”

Pioneer's shares have lost 2.5% since the 3 February ruling.

Klipin welcomed Friday's statements. “They are creating certainty now, where there was a lot of uncertainty.”

*Source: Business Day*

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