Tiger's Nigerian dough fails to rise

By Zeenat Moorad

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In another disappointing update, SA's largest food company, Tiger Brands, yesterday, 14 May 2015, warned that its first-half results would be negatively affected by foreign exchange losses in Dangote Flour Mills and a weak performance by its Kenyan unit, Haco Tiger Brands.

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The maker of All Gold tomato sauce and Jungle Oats said basic headline earnings per share, which includes continuing and discontinued operations, would be 2% lower than the same period last year at 853c for the six months ended 31 March. Dangote Flour Mills continues to be an albatross for the group.

The write-downs follow substantial losses since the Nigerian food business was bought in 2012, partly attributed to an oversupplied market but also substandard mills.

Tiger Brands bought a majority stake in Dangote to have clout in Africa's biggest economy.

Wayne McCurrie, portfolio manager at Momentum, said Dangote was a big problem. "One can understand why they went there - they just maybe bought the wrong asset. Management sits in a difficult position. They're very big in SA where the economy is growing at 2% and they have tons of competition - automatically they would say let's go elsewhere into Africa where they're growing at 5%-6%, and there's not that much competition.

"Then they go and buy Dangote and it turns out the quality of the plant is poor," he said.

As Africa's biggest crude producer, the oil price's plunge has created problems for the country's economy and its currency, which has lost 13% of its value against the dollar in the past six months. According to Nigeria's National Bureau of Statistics, the rate of inflation rose to a 21-month high of 8.7% last month.

"The Nigerian economy is not going to get out of trouble in the near future because the oil price is still below $70 and now they're going to have to put more money into Dangote to try and sort it out. Their share is still very expensive, despite the fact that it has fallen. We don't own any and we're not buying any in the short term," McCurrie said.

Independent analyst Ian Cruickshanks questioned Tiger's due diligence process.

"Someone is responsible here. Was the due diligence done properly and who did it? Were the numbers checked out by auditors and if so let's ask the auditors how far their professional insurance cover goes.

"It's now unacceptable. It's time for shareholders to call for a special general meeting. Management is charming, but charming doesn't make profits," said Cruickshanks.

Tiger Brands CEO Peter Matlare said earlier the group had "underestimated" the complexities of fixing and running a business of Dangote's size in Nigeria. According to Cruickshanks a booming Nigerian economy would only have allowed the group to disguise the problem.

"The chips are down now, it's raining disaster. The sellers saw South Africans with deep pockets coming. We have shown ourselves to be totally naïve in negotiating outside our own borders and have been taken for a ride," Cruickshanks said.

Tiger Brands is due to release results on 20 May.

Source: Business Day via I-net Bridge