

Volume growth for Pioneer Foods

The share price of Pioneer Foods, the food processing group, touched a new high of R70,50 last week after the company announced that its revenue had increased 12% to R6.82bn in the four months to January.

By Edward West 18 Feb 2013



Volumes increased by between 3% and 5% on average in the group's product basket, which includes brands such as Bokomo and Sasko, the group said in a trading statement.

Company managing director Andre Hanekom told *Business Day* the group had been successful in maintaining sales volumes in a "constrained environment" over the four months, but this had a negative effect on margins.

Referring to the company's longer-term strategy, Hanekom said they expected to reap volume increases and cost saving benefits from substantial capital expenditure, particularly once the economy started improving.

There was some relief in the shorter-term for maize-based food production, but wheat prices were up, while wage and administered prices would also affect food production costs in coming months, said Hanekom.

SA's retail groups reported double digit growth over the December period, traditionally their busiest time of the year, but the sluggish economic growth in South Africa means that retail sales were not as high as in previous years.

Although not strictly comparable, Pioneer's revenue growth beat that of competitor, AVI, which lifted sales 10.7% to R4.89bn in the six months to December 31.

Corn flakes, dried fruit and biscuits were big sellers for Pioneer in the four month period. Price inflation was between 7% and 9% for the period.

"The impact of higher costs is compounded by the weakening rand, making further price increases likely in the group's product basket," Hanekom said, adding that this would have an impact on earnings growth.

Pioneer's dried fruit volumes were up 50% in the four months due to better availability of vine fruit in particular. Biscuit volumes rose 18% due to price discounting while cornflake volumes grew by double digit due to rising exports in Africa and the higher volumes from a new plant.

The Sasko division's performance was worse than the same time last year due to a lag in raw material recovery.

In the Agri operations the pricing levels of broiler chickens was below cost amidst a glut in imports; and egg margins were under pressure as egg prices did not respond to raw material price increases.

Bokomo Foods volumes were up 6%, price inflation averaged 9% while raw material cost increased by 14

Bread volumes remained flat.

At Sasko the underlying maize and wheat inflation amounted to about 16%, and inflation in the selling price reaching 10%.

In Ceres beverages, long life juice volumes fell as local volumes contracted, with cost inflation of 18% being driven mainly by higher prices for base concentrates.

Source: *Business Day* via I-Net Bridge

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