Tiger Brands gets territorial in SA

When Lawrence MacDougall stepped into the position of Tiger Brands CEO in March last year, a lot was expected of him. But the veteran of 39 years in the fast moving consumer goods market has delivered - and then some.

Current market conditions have demanded all the expertise MacDougall can muster. "I have experienced conditions as tough in other countries, but never in SA," says MacDougall.

In its six months to March, SA's largest food group defied the odds, lifting revenue 7% to R16.4bn and headline EPS (HEPS) 9.5%, excluding one-off abnormal items and a combined 36% fall in contributions from associates Oceana and Chilean group Empresas Carozzi. "Tiger has just delivered an exceptionally good result," says Denker Capital's Ricco Friedrich. "You would think it is operating in another country. Compared with its peers, Tiger has cleaned up."

Friedrich points in particular to Tiger's largest rival, Pioneer Food Group, which he says "made a mess with its maize procurement". Pioneer found itself locked into maize futures contracts that were bought when the maize price was sky high. It was hedging against a feared drought-induced maize shortage that never came. With drought fears over, the maize price fell to levels last seen in early 2015.

Pioneer paid a heavy price, with its HEPS in the six months to March plummeting 56%. This brought to an end a brilliant growth run since Phil Roux became CEO in 2013 and prompted him to describe 2016 as a "year from hell".

For good reason, it seems, Tiger does not play in the futures game, says MacDougall. But it did participate in a game of another sort in its latest six months, playing the fine balance between pricing and volume.

It paid off for Tiger, which lifted prices by an average of 12% at the cost of a 4% fall in volumes in its SA operations. The end result: a 15% rise in operating income to R2bn.

"We played our portfolio well," says MacDougall. "Our diversified basket of products played to our strengths." It is a formidable basket. Of its 41-brand line-up, 13 brands are number one in their categories: Albany, Fatti's & Moni's, Tastic, Jungle Oats, Koo, All Gold, Crosse & Blackwell, Black Cat, Doom, Purity, Enterprise, Maynards and Beacon.

In the latest six months, the group's groceries division achieved particularly good results, upping operating income 32% to R310m. Even more impressive was the home, personal and baby care division, where operating income soared 71% to R336m.

Tiger Brands to be vigilant on continent
Colleen Goko 29 May 2017

But Tiger did not have it all its own way in the reporting period. Its export and international division took a hit that left operating income down 25% year on year, at R194m. Tiger hit particularly strong headwinds in three of its key export markets: Nigeria, Angola and Mozambique. Currency shortages and huge currency value falls combined to create damage.

However, there are positive signs that conditions are improving, particularly in Angola and Mozambique, says MacDougall. "In Angola we are able to leverage off a good trading relationship with Shoprite."

The export and international division is also home to Deli Foods in Nigeria and Chococam in Cameroon, the two remnants of the African empire cobbled together by MacDougall's predecessor, Peter Matlare.

Nigeria's second-largest flour-milling firm, Dangote Flour Mills, has been sold off. Tiger bought a 65.7% stake in the firm in October 2012 for R1.5bn. After taking losses and write-offs of more than R5bn, the firm was sold back to Nigerian billionaire Aliko Dangote's group for a token US1 in December 2015.

A 51% stake in East African Group of Ethiopia is also gone, with that deal closed in April. And a 51% stake in Kenyan firm Haco is in the process of being sold. Chococam and Deli Foods will remain on board says MacDougall, who, perhaps surprisingly, does not rule out future acquisitions in Africa.

But, for now, the focus is certainly going to remain on extracting greater efficiency and profitability from operations in SA. MacDougall, just getting into his stride, spelt out the path Tiger will follow in a strategic review released in May. Summing up, the review noted: "The future operating model will refocus on the consumer, reignite innovation and leverage our scale."

Says 36One Investment Management analyst Daniel Isaacs: "With MacDougall at Tiger, the party is over for its competitors."

He is referring to the less-than-optimal attention paid to SA operations on Matlare's watch, which opened the door for competitors to grab market share from Tiger.

One area that is being addressed in earnest is marketing. Though marketing spend is still modest at about 2.5% of net sales, MacDougall says: "We are becoming far more efficient and professional with our marketing spend." Tiger is also aggressively slashing costs. It has done well so far, trimming costs by R708m since 2014, with R136m cut in the latest six months.

However, MacDougall wants far more in his drive to lift group operating margin by 100-150 basis points by 2022.

A key part of his strategy is the introduction of zero-based budgeting (ZBB), which breaks from tradition by requiring the preparation of a fresh budget every year without reference to the previous year's base. ZBB is used with great success by many global corporates, including US confectionery giant Mondelez International, the company MacDougall left to join Tiger.

MacDougall is upbeat on prospects: "I am feeling good about Tiger. It is a fantastic company with great brands and a strong management team."

With Tiger trading on a solid 18 p:e, it seems the market agrees. But it has not given up on Pioneer. Recognising that Pioneer's futures woes will soon be over, it is affording it a normalised p:e of about 17.

Roux will want to regain the strong growth momentum Pioneer lost in the past half-year. It sets the scene for a battle between Tiger and Pioneer, both led by determined and highly skilled CEOs.

Source: Financial Mail