

Pioneer goes into food partnership in Nigeria

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Pioneer Foods, the maker of ProNutro and Weet-Bix breakfast cereal, on Tuesday, 3 March 2015, announced its first major foray into Nigeria.



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In what is deemed as a low-risk, route-to-market opportunity to expand its basket, Pioneer will pay \$7m as it invests in a majority stake of newly formed company Food Concepts Pioneer (FCPL), with Lagos-based partner Food Concepts plc.

Nigeria's rapidly growing population has attracted consumer-facing groups as an alternative avenue of growth.

The move follows arch-rival Tiger Brands' ill-starred acquisition of Dangote Flour Mills, which has seen it suffer a nearly R1bn write-down since the Nigerian food business was bought in 2012.

Losses at Dangote have been partly attributed to an oversupplied flour market and more recently a devaluation of the naira currency.

FCPL houses the business of Butterfield Bakeries, a baked goods business specialising in bread and sausage roll production. This will allow Pioneer Foods to leverage existing infrastructure and brand recognition - both crucial elements of consumer packaged-goods companies.

Nigeria key for growth

Pioneer Foods CEO Phil Roux said Nigeria was a key market for any food company in search of growth.

"This is a fairly priced asset with good upside potential," he said.

Pioneer Foods already has a significant export footprint in several African countries, and trades with a number of its brands in Nigeria, but has no assets in the country.

It has a manufacturing and distribution agreement with New Age Beverages, which packs the Ceres juice brand.

Jiten Bechoo, an equity research analyst for Avior Research, said Pioneer had the benefit of hindsight when it came to how Nigerian deals could pan out.

"Pioneer is smaller than Tiger ... they partnered very astutely with people who they felt they could trust more," Bechoo said.

"I don't think Pioneer's balance sheet could handle massive write-downs if things don't go well, so it's almost as if they are forced into a tactic where they take a tentative approach ... on a smaller scale.

"Given the size of Tiger Brands, though, they almost had a responsibility to head into Africa and to take advantage of its fastest-growing market.

"While there are questions around how they did the deal, it was the next logical step for them," he said.

FCPL operations

FCPL has bakery operations in the capital Abuja, Ibadan, Lagos and Benin City. Following the investment by Pioneer, operations will be scaled up.

"This type of acquisition and the platform they now have give Pioneer the ability to export more of their products to Nigeria, with a company that has a good route to market ... already, whereas with Dangote, obviously it was in a build phase in terms of distribution, which is the most important and challenging thing in Nigeria," Bechoo said.

Pioneer Foods will hold 50.1% of the shares in FCPL and the current Food Concepts plc shareholders' interest will be diluted to 49.9%.

Food Concepts was founded by Deji Akinyanju in 2001. Other shareholders include the International Finance Corporation, a member of the World Bank Group, and Development Partners International, a UK-based private equity firm focused on African investments.

Food Concepts' portfolio includes quick-service restaurant brands Chicken Republic, Pizza Republic, Reeds (a Thai fusion concept) and Free Range Farms - an integrated poultry farm and processing plant.

Source: BDpro via I-Net Bridge