Tiger takes another hit on Nigerian adventure

By Mark Allix

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Tiger Brands' (TBS) Nigerian adventure continues to cause pain to investors. Tiger has written off even more of the value of its R1.5bn Dangote Flour Mills deal of 2012, with total impairment charges now equal to more than half the deal's value.

On Wednesday, 19 November 2014, the company said it had impaired the Dangote assets by another R105m after writing off R849m in the first half of the year.

In hindsight...

Tiger CEO Peter Matlare admits Tiger should have been more circumspect in its approach.

He said that as CEO he took "full responsibility" for the write-downs, adding that substantial new flour capacity had come onstream in Nigeria between 2010 and 2012, when the deal was negotiated.

"It's one of those things we should have paid more attention to," he said. Matlare acknowledged that the flour market in Nigeria suffered significant overcapacity.

The Dangote business remains loss-making despite two flour mills and a noodle factory being shut.

Despite the trouble in Nigeria, Tiger increased its dividend 9% to 940c per share in the year to end-September. Matlare said on Wednesday the group thought it "prudent" to write down another R105m on the Dangote Flour Mills asset in the second half of the year.

In addition Tiger Brands had written down another R68m in goodwill in biscuit maker Deli Foods in the year. This was part of its R1.5bn deal to acquire 63% of Dangote Flour Mills. Tiger later bought more of Dangote Flour Mills as part of a mandatory offer, bringing its holding to 73%, Matlare said.

In December last year Tiger sold back the Dangote Agrosacks packaging subsidiary to the Dangote group for about R500m.

Analysts said on Wednesday this company was "non-core" to business.

Recent recalls

Matlare also said "niche" product recalls last month involving Sudan 1 food dye found in some packs of rice products imported from India had been resolved. The dye is a banned carcinogenic colourant in many countries.

"It's all cleaned up, the market is back on track and product is back on the shelf," Matlare said.

Affect on financial results

Analysts were less than sanguine about the effects of Nigerian operations on the results.

In its March interims Tiger reported an R849m impairment charge on Dangote Flour Mills, which contributed to a 52% nosedive in income to R632m.

Victor Seanie, investment analyst at Kagiso Asset Management, said: "The issues before the acquisition were poor management; poor product quality; overcapacity in the Nigerian flour-milling market (ongoing); and lack of strong branded consumer grain products that command good margins.

"The gain (for the group in Nigeria) is a foothold in what will become Africa's largest consumer market."

Mark Saner, equity analyst at Imara SP Reid, said on Wednesday that Dangote Flour Mills continued to make operating losses.

"Management stated it won't turn profitable before 2016, although it says the turnaround is 'on track'," he said.

Investec Securities investment analyst Anthony Geard gave a terse "no comment" when asked whether the results were "credible", as stated by the company.

He said the Dangote Flour Mills were affected by "overcapacity in the Nigerian wheat flour market, strong competition, and internal inefficiencies".

Matlare also said Nigerian sales, including those of competitors, had been affected by the activities of the militant Islamist group Boko Haram.

Countering this, the group was seeing "strong sales momentum" in the east and south of Nigeria, in markets where it had not previously been.

Focus

The group said on Wednesday that existing businesses in Nigeria remained a "key focus area", with the priority being "to fix and grow these businesses".

Though short-term challenges at Dangote persisted, it said, there were "encouraging signs" of improvement as action to improve product quality, cost reduction and sales growth - top-line growth - "start to bear fruit".

The South African businesses grew operating income 7% to R3.3bn, despite a 9% fall in the home, personal care and baby business. Operating income from the domestic food businesses increased 12% to R2.9bn.

The group improved cash flow to R4.2bn, with free cash flow of R2.1bn marginally exceeding the group's attributable profit after tax of R2bn.

Source: BDpro via I-Net Bridge