Astral Foods: Still the bird to back

BY MARC HASENFUSS, 26 MAY 2016, 21:03

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IS POULTRY producer Astral Foods a “chickenhawk“? The company’s frank-talking CEO Chris Schutte speaks openly about the consolidation that must transpire among the bigger players in the stressed local poultry sector. But Astral has not yet tilted at any vulnerable chicken-producing entity.

Perhaps the “chickenhawk” analogy is unfair. Astral — the JSE’s “big bird” — seems comfortable on its lofty perch, surveying an industry where feathers are about to start flying as fierce cost pressures and cheaper imports pack away the last remnants of viability in a softening consumer market.

There have been more than a few market watchers who believed strongly that the financially muscular Astral should have swooped on the much smaller Uitenhage-based poultry producer Sovereign — which is now being aggressively cornered by unlisted Country Bird Holdings (CBH).

Schutte has been at pains to stress that Astral could not — in fact, would not want to — embark on a hostile takeover of Sovereign.

Not only would there be competition challenges and deal-pricing complications (with net asset value markedly higher than the market price), there is also the contention that Astral simply would not want to swallow the whole of Sovereign.

In fact, Schutte has gone as far as pointing out it could be cheaper for Astral to simply increase its own capacity rather than buy up another company’s market share.

Speaking to the Financial Mail last week, Schutte reiterated that Astral needed to capitalise on acquisition opportunities — but stressed the company would be highly selective in its strategy if it does participate in industry consolidation.

“We are not looking to buy any company as a going concern. We will buy selected assets.”

If Schutte’s dire prognosis for the poultry industry comes to pass, Astral’s hawkish nature may come to the fore sooner rather than later.

Astral’s investment presentation notes rather ominously that: “High maize and feed prices will continue until at least rainfall patterns normalise, with some midsize industry producers already showing signs of financial distress.”

Schutte reckons it would not be surprising if one of the handful of midsize poultry players opted for business rescue in the next few months.

“There are companies — some well-established family-owned businesses — that are bleeding. They simply can’t recover the feed costs.”

Pricing will be a prickly issue for smaller poultry players in the next 12 months with the full impact of US imports still to be felt. Astral’s investment presentation shows examples of the desperate discounting on chickens and chicken pieces that is already happening at retail level.

Essentially, any acquisition activity by Astral will be around bolstering profitable poultry volumes. In other words, don’t expect the company to be buying up abattoirs …

While there will be considerable introspection in reinforcing Astral’s market-leading position in SA, there is a welcome African diversion to lift the local poultry industry gloom.

Efforts in Mozambique, Zambia and Swaziland have produced — at best — mixed results for Astral, but there appears to be a rather enthusiastic thrust into Ethiopia.

The potential Ethiopian market is large, with a population of 96m with no formal poultry industry and a per capita consumption of chicken at about 2kg.

Astral were initially in talks with a Dutch company about acquiring existing assets in Ethiopia. A detailed due diligence exercise was undertaken on a table egg operation with a view to acquiring the business as a going concern.

The Dutch owners, however, decided not to sell, and Astral consequently opted to proceed with a greenfields operation in the country.

Land has already been identified outside Debre Zeit (about 60km southeast of Addis Ababa), and an application for this land was submitted to the relevant authorities in April.

Schutte says Astral will enter the Ethiopian market through a feed-mill and then build hatching capacity, and when a sufficient market has been established start building breeding capacity.

A general manager has already been appointed, and Schutte reckons it should take roughly 18 months to establish a going concern in Ethiopia.

Astral's participation in consolidation in the local poultry sector and its efforts to secure early traction in Ethiopia will provide a welcome sideshow to what could be some lean numbers in the next 12-18 months.

How much of the operational bad news is already factored into Astral's share price is difficult to gauge — especially with pending brining legislation coming into the mix.

For those backing the poultry sector's long-term fundamentals as a cheap provider of protein there is little doubt Astral remains the bird to back.

The interim margin was a stout 7,4% (thanks mainly to the feed division), and does give some reassurance that there is still room for Astral to manoeuvre operationally.

The company's comfortable gearing — less than 10% at the end of March — underlines Astral's ability to move and shake if the going in the local poultry sector gets tougher.