

Premier Foods

Consumer
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A more resilient business

Premier Foods' H119 results demonstrate the business has become more resilient under the stewardship of outgoing CEO, Gavin Darby. Revenue growth of 1.0% in Q2 despite the hot summer was encouraging, and the UK relaunch of the Mr Kipling brand has clearly gone well. The news that Ambrosia may be sold suggests yet another step in the business transformation, although the price will determine the level of dilution and any change to net debt/EBITDA.

No longer a winter business

Innovation has continued to deliver at Premier Foods, and has allowed revenue growth despite the unseasonably hot UK summer. The move towards greater convenience and an increased focus on products aimed at snacking continues to fit well with current consumer trends, and allowed Premier Foods' products to stay relevant, even in the hot weather. In Sweet Treats, the relaunch of Mr Kipling led to excellent performance, with branded sales up 7% in Q2 in the division and Mr Kipling itself witnessing 13% revenue growth.

More disposals?

The company sold many brands during the tenure of prior CEO Mike Clarke, which helped to significantly reduce the company's indebtedness. That said, not all disposals helped reduce the net debt/EBITDA figure, which remains elevated (3.6x at FY18). While disposals no doubt help to reduce complexity and more focus can be placed on the remaining businesses, clearly a lot hinges on the price that is ultimately agreed. In addition, management confirmed it is having conversations with the Pension Trustees, as any disposal proceeds from the potential sale of Ambrosia may be subject to a one-off payment to the group pension scheme.

Valuation: High debt levels contribute to discount

Premier Foods trades on 4.8x CY19 consensus earnings, which is a significant discount to its global and UK food manufacturing peer group and is due to its much higher level of debt than its peers. On EV/EBITDA it trades at c 7.6x CY19, which is still at a discount to its peers. The logistics transformation programme is undergoing some operational challenges that may affect Q3 revenues, but management's profit expectations for the full year are unchanged. CEO Gavin Darby is due to step down at the end of January; although he leaves the business in far better shape than when he started, more recent controversies with major shareholders must have been a distraction.

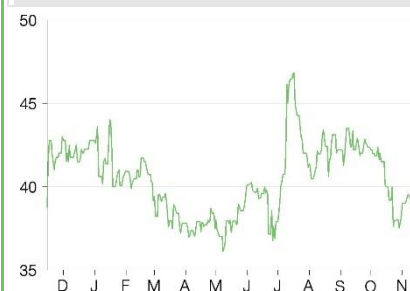
Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/18	819.2	78.6	7.6	0.0	5.0	N/A
03/19e	853.1	79.8	8.4	0.0	4.5	N/A
03/20e	872.1	85.5	9.0	0.0	4.2	N/A
03/21e	834.6	74.1	7.9	0.0	4.8	N/A

Source: Reuters I/B/E/S

Price 37.65p
Market cap £317m

Share price graph



Share details

Code	PFD
Listing	LSE
Shares in issue	840.8m

Business description

Premier Foods operates primarily in the ambient food sector. The Grocery division operates in four main segments: Flavours & Seasonings, Cooking sauces & Accompaniments, Quick Meals, Snacks & Soups, and Ambient Desserts. The Sweet Treats division comprises ambient cakes.

Bull

- Q219 witnessed positive growth despite hot weather, unlike in previous hot quarters.
- Mr Kipling UK relaunch clearly going well.
- Batchelors continues to perform well.

Bear

- Net debt/EBITDA remains high (3.9x at end FY18).
- Logistics transformation programme undergoing operational challenges, which may affect H2 performance.
- A hard Brexit would precipitate the need for stock building of raw materials, and hence up to £10m working capital affect in Q4.

Analysts

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