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GROWTH AND STRATEGIES OF LARGE, LEAD FIRMS – FOOD SECTOR

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Abstract

The food processing sector is a large manufacturing employer in South Africa and has shown an increasing real value-add over time. The demand for various processed food products across southern Africa has also grown as income levels and urbanisation have risen in the past decade, which presents important opportunities for increasing production of these goods in South Africa. The investments and orientation of large firms in key productive sectors such as food production can shape the pattern of industrial development of countries. It is therefore critical from the perspective of industrial development in South Africa to understand the investment strategies and decisions of large and lead firms in this sector, and how high barriers to entry and concentration and a history of competition law violations in the sector may affect outcomes. This study, which forms part of ongoing research on large firms, ownership and structural transformation in South Africa, evaluates investments, ownership and performance of large food production firms listed on the JSE over the period 2010 to 2015 based on publically available information from company reports and announcements. It assesses whether investments are being made in new productive assets or if profits are being withheld or distributed to owners, if investments made by the largest, listed food producers are located in South Africa or outside, if firms are growing organically or through mergers and acquisitions, and how ownership and control of the companies can affect these outcomes. The assessment shows that firms have been more inclined to grow or diversify their businesses by acquisition than organic expansion of existing operations and capacity. There is a clear trend of expansion of operations and interests by South African firms to other sub-Saharan Africa countries, particularly in terms of high value green field projects, with many local investments but of much smaller value.

L1, L2

1. Introduction

The food processing sector in South Africa has grown more rapidly than other sectors and the economy overall, with a real value-add of 34% more in 2014 than in 2004 compared to 15% in the manufacturing sector as a whole (Ncube, Nkhonjera, Paremoer and Zengeni, 2016). The sector is also the largest manufacturing employer in the country accounting for 13.6% of total manufacturing employment, indicative of the potential of the sector to drive growth and employment.

This document presents a pilot template for tracking the developments in different sectors, with a focus on the South African food sector as part of understanding the strategies and decisions of large, lead and dynamic firms in the South African economy. The focus at this point is on large firms, listed on the Johannesburg Stock Exchange (JSE) within this sector, and the analysis considers the period from 2010.

The thirteen firms listed under the food producers sector of the JSE in 2016 are considered, namely: AH-Vest, Astral Foods, AVI, Clover, Crookes Brothers, Oceana Group, Pioneer Foods, Quantum Foods, RCL Foods, Rhodes Food, Sovereign Foods, Tiger Brands and Tongaat Hulett (Table 1). All the firms are listed on the JSE, while Clover, Oceana and Tongaat Hulett are also listed on other exchanges.¹ The rankings of the firms on the JSE by market capitalisation in 2015 are also indicated, with Tiger Brands ranked the highest (35).

Table 1: Firms listed in the Food Producers sector of the JSE

Company name	Product line (Brands/products)	Countries of operation	Listing (& market cap ranking 2015) ²
Tiger Brands Ltd	Fast moving consumer goods (FMCG) producer (Purity, Elizabeth Anne's, Energade, Oros, Hall's, Rose's, Tastic, Fatti's and Moni's, Ace, Albany, Cresta, Golden Cloud, Jungle Oats, Movite, King Korn, Simply Cereal, Aunt Caroline, All Gold, Black Cat, Colman's, Cross and Blackwell, Ice Cap, Koo, Spray and Cook, Hugo's, Mrs H.S Ball's, Enterprise, Bokkie, Mielie Kip, Reown, Beacon, Toff-O-Luxe and Jelly Tots)	Cameroon (on-shore manufacturing) Ethiopia (on-shore manufacturing) Kenya (on-shore manufacturing) Nigeria (on-shore manufacturing) South Africa (on-shore manufacturing) Zimbabwe (on-shore manufacturing)	JSE (35)
Pioneer Foods Group Ltd	FMCG producer (Weet-Bix, Liqui-Fruit, Ceres, Sasko, Safari, Spekko, White Star, Crossbow, IMBA, Champion, Blue Bird, Select	South Africa (Operations) Nigeria (Operations) Botswana (Joint venture) Namibia (Joint venture)	JSE (46)

¹ We note that Illovo Sugar, also a large sugar producer, is no longer listed on the JSE following acquisition by Associated British Foods (ABF).

² Market capitalisation is the market value of a company's outstanding shares estimated as the stock price multiplied by the total number of shares outstanding.

	rice, Pasta Grande, Bokomo, Fruit Tree, Lipton, Moir's, Bovril, Marmite, Redro, Peck's Anchovette, Wild Island, Daly's, Caribbean, Werda, Smash, and Maizena)		
AVI Ltd	FMCG producer (Five Roses, Freshpak, House of Coffees, Frisco, Koffiehuis, Ellis Brown, Bakers, Pyotts, Baumann's, Willards, Provita, I&J, Ciro, Lavazza and Douwe Egberts Cafitesse)	South Africa	JSE (60)
Oceana Group Ltd	Fishing (Lucky Star, Lucky Pet, Oceana Fishmeal, Blue Continent Products, and Oceana Lobster)	South Africa (fishing) Namibia (fishing)	JSE (78) Namibian Stock Exchange (NSX)
RCL Foods Ltd	Poultry, sugar, grains and animal feed producer (Rainbow, Rainbow Food Solutions, Sunbake, Pieman's, Nola, Yum, Selati, Farmer Brown, Supreme, Mageu Number 1, Safari, Ouma, Mnandi Amahewu, A1 maize meal, Bobtail, Tafelberg, Canine Cuisine, Monati Mabela, Ultra Dog, Dogmor, Catmor, Bonzo, Vector logistics, Opti Mizor, Epol, Molatek, Cobb, and Booker Tate)	South Africa (Operations) Swaziland (Joint venture) Namibia (Operations) Botswana (Joint venture) Uganda (Joint venture) Zambia (Joint venture)	JSE (82)
Tongaat Hulett Ltd	Feedstocks of sugarcane and maize producer (Hulett, Hulett Sunsweet, Blue Crystal, Marathon, Voermol, Amryal, Hydex, Vaalgold)	South Africa (Sugar operations) Zimbabwe (Sugar operations) Mozambique (Sugar operations) Swaziland (sugarcane estate) Namibia (Sugar operations) Botswana (Sugar operations)	JSE (87) London Stock Exchange (LSE)
Rhodes Food Grp Hldg Ltd	Food producer (Hazeldene, Spekenam, Zing, Apex, Rhodes, Magpie, Bull Brand, Saint Pie, Squish, Trout Hall, Wilde, and Crystal Falls)	South Africa (farming operations and production facilities) Swaziland (farming operations and production facilities)	JSE (135)
Astral Foods Ltd	Poultry producer (Festive, Goldi, Mountain Valley, and Country Fair)	Poultry operations (South Africa, Mozambique, Swaziland and Zambia)	JSE (140)

		Feed mills (South Africa, Mozambique and Zambia)	
Clover Industries Ltd	Dairy products and non-dairy beverage producer (Clover Fresh Milk, Clover UHT Milk, Ultra Mel Milk, Clover Milk, Clover Feta Cheese, Clover Pre-packed Cheese, Elite cheese, Sacca, Milk powder, Berg, Clover Cream, Clover Condensed Milk, Clover Butter and butter spreads, Tropika, Clover Krush, Super M, Aquartz, Manhattan Ice Tea, and Capri-Sun)	South Africa West Africa Swaziland Namibia Botswana	JSE (161) Namibian Stock Exchange (NSX)
Crookes Brothers Ltd	Primary agricultural products producer (Sugar cane, bananas, deciduous fruit, grain and sheep)	South Africa (agricultural farming) Swaziland (agricultural farming) Zambia (agricultural farming)	JSE (237)
Quantum Foods Hldgs Ltd	Poultry producer (Nova and Nulaid)	South Africa (operations in animal feeds, broiler, eggs and layer livestock) Zambia (operations in parent breeding facility, a hatchery, a feed mill and a small laying facility) Uganda (operations in parent breeding facility, a hatchery and a feed mill)	JSE (253)
Sovereign Food Inv Ltd	Poultry producer (Country range, Cater chicken, Chef's choice MCP, and Chicken tizers)	South Africa	JSE (268)
AH-Vest Ltd	Sauce producer (All Joy and Veri Peri)	South Africa	JSE (316)

Sources: Companies' annual reports and companies' websites

These firms are involved in various levels of the agricultural value chain from farming, poultry production and fishing to production of processed foods.

- The firms integrated into farming, poultry production or fishing are Astral Foods, Crookes Brothers, Oceana Group, Quantum Foods, RCL Foods, Sovereign Food and Tongaat Hulett.
- The firms mainly concerned with the processing and branding of foods are AH-Vest, AVI, Clover, Crookes Brother, Pioneer Foods, Rhodes Food and Tiger Brands.
- Only three firms appear to have their own distribution companies; RCL Foods with Vector Logistics, Oceana with CCS Logistics and AHV which contracts with a subsidiary of its parent company, Eastern Trading Logistics.³

³ Annual reports of RCL Foods, Oceana and AHV.

Ownership structure in the sector

The ownership structure of most of the firms in the food sector is largely comprised of nominee companies of the large banks as follows:

- Standard Bank (including its subsidiaries) has a stake in 10 of the firms listed in the food sector, six of which are majority shareholdings (Table 2).
- FNB (including its subsidiaries and associates) has ownership in eight.⁴
- Nedcor holds significant shares in five of the 13 companies we consider.
- Ferbros Nominees (Pty) Ltd, a subsidiary of Investec Bank Ltd South Africa, has shares in four of the 13 firms.
- Goudstad Nominees⁵ (Pty) Ltd, a subsidiary of Société Générale Security Services which is a French multinational banking and financial services company, holds shares in two of the 13 companies.
- The Government Employees Pension Fund (GEPF) and Public Investment Corporation (PIC) have the largest shareholding in two of the largest companies in the sector; Pioneer Foods through GEPF (10.9%) and Tiger Brands through PIC (11.3%). It is important to note however that the PIC and GEPF have shareholding across a very broad set of firms in the economy and will generally not seek to exercise control and/or be involved in the strategic direction of the investee firms except on certain cross-cutting issues such as compliance with BBBEE requirements. This is potentially an area for further engagement and intervention.

The term nominees essentially refers to the holding of shares on behalf of others.⁶ The nominees of each of the banks represent the securities or investments of the banking institutions' clients. The high interest of Standard Bank and FNB in this sector is notable. Publicly available information suggests that each firm views the food sector as a high potential, high growth sector. Standard Bank believes it is an integral contributor to the development and transformation of the food sector.⁷ FNB is apparently the largest financier of agribusiness in SA with a particular focus on the importance of food, fuel and livestock for the future.⁸ There is no indication from annual reports that the shareholding of the large banks involves participation on the boards of the various firms, or the extent of involvement of the banks in directing the strategy of the firms although this could be explored further.

Table 2: Ownership structure of listed companies in the food sector, 2015

Company	Majority shareholders
AH-Vest Limited	Certified shareholders (81.39%), PSG Genomineerdes Eiendoms Beperk (15.77%)
Astral Foods Ltd	Standard Bank Nominees (35.17%), First National Nominees (Pty) Ltd (19.17%), Sharestock Nominees (Pty) Ltd (9.56%), Nedcor Bank Nominees Ltd (7.26%)

⁴ This number includes Rand Merchant Bank and its subsidiaries as an associate of FNB.

⁵ Goudstad Nominees is a private company incorporated in South Africa on December 2, 1987. Their business is recorded as financial intermediation, insurance, real estate and business services although further information on the firm is difficult to access.

⁶ Section 1 of the Financial Markets Act ("FMA or the Act") defines a Nominee as: A person approved under section 76 to act as the holder of securities or of an interest in securities on behalf of other persons. A nominee company performs the same role by holding securities on the behalf of other persons

⁷ See <http://www.grainsa.co.za/standard-bank-sees-exciting-times-ahead>

⁸ See <https://blog.fnb.co.za/2014/03/the-future-of-sa-agriculture/>

AVI Ltd	Standard Bank Nominees (40.16), First National Nominees (Pty) Ltd (12.03%), Goudstad Nominees (Pty) Ltd (10.10%), Ferbros Nominees (Pty) Ltd (5.73%).
Clover Industries Ltd	Standard Bank nominees (28.6%), First National Bank (FNB) securities (Pty) Ltd at (17.12%), First National Nominees (Pty) Ltd (11.57%), Nedcor Bank Nominees Ltd (8.81%), Ferbros Nominees (Pty) Ltd at (8.12)% and Goudstad Nominees (Pty) Ltd (7.85%).
Crookes Brothers Ltd	Standard Bank Nominees (52%), Ferbros Nominees (Pty) Ltd (15.38%), FNB Securities Pty Ltd (9.36%), Certificated Shareholdings (8.34%)
Oceana Group Ltd	Tiger Brands (42.1%), Brimstone (16.8%), Oceana Empowerment Trust (10.2%), and other (30.9%)
Pioneer Foods Group Ltd	Government Employees Pension Fund (10.9%), Ryla 21 (Pty) Ltd (4%), Other shareholders (47.3%). The non-public shareholding statistics stand as follows; Zeder Investments Ltd (25%), Pioneer Foods (7.7%), Pioneer Foods BBBEE Trust (4.6%), Pioneer Foods Share Incentive Trust (0.3%), Directors including subsidiaries (0.2%).
Quantum Foods Hldgs Ltd	PSG Genomineerdes Eiendoms Beperk (42.24%), Standard Bank Nominees (10.58%), First National Nominees (Pty) Ltd (9.37%), Nedcor Bank Nominees Ltd (8.61%) and FNB Securities (Pty) Ltd (6.22%).
RCL Foods Limited	Remgro (72%), Oasis AM (11%) and RCL Employee Share Trust (5%).
Rhodes Food Grp Hldg Ltd	RMB Morgan Stanley (49.09%), Standard Bank Nominees (28.43%).
Sovereign Food Inv Ltd	Standard Bank Nominees at 32.10%, Ferbros Nominees at 32.03%, Juspoint Nominees at 8.47%, Agulhas Nominees at 5.83%, Nedcor Bank Nominees at 5.17%.
Tiger Brands Ltd	Public Investment Corporation (PIC) (11.3%), Colonial First State Global Asset Management (7.8%), Tiger and Consumer Brands Ltd (5.4%).
Tongaat Hulett Ltd	Standard Bank Nominees (34.07%), SMK Genomineerdes (EDMS) BPK (18.58%), First National Nominees (Pty) Ltd (13.40%), Nedcor Bank Nominees Ltd (11.50%) and CMB Nominees (Pty) Ltd (5.06%).

Sources: Annual reports and Inet BFA

It is worth noting that Tiger Brands, the largest firm in the sector in terms of revenue also has significant shareholding in Oceana Group, making Tiger Brands a much larger company within the sector than simply its own operations.

2. Key performance metrics for sector

This section considers key performance metrics for firms in the sector, focusing on investments, profitability and employment. There are some important areas for further analysis arising from the data. For most of the firms, growth in the total asset base has largely been through acquisitions of existing firms rather than reinvestment and expansion of existing capacity. Although it may not apply to all firms, the implication of this is that investment in new productive assets is not taking place to levels which might be expected given rapid growth of processed food consumption in the region, the expansion of major retailers and producers, as well as the increasing gap between South Africa's production of food products relative to demand (resulting in rising imports). It may be that firms are achieving greater volumes and scale from existing operations as demand from the region grows (and slows down in South Africa) although the trend in acquisitions contradicts this somewhat. From a policy perspective,

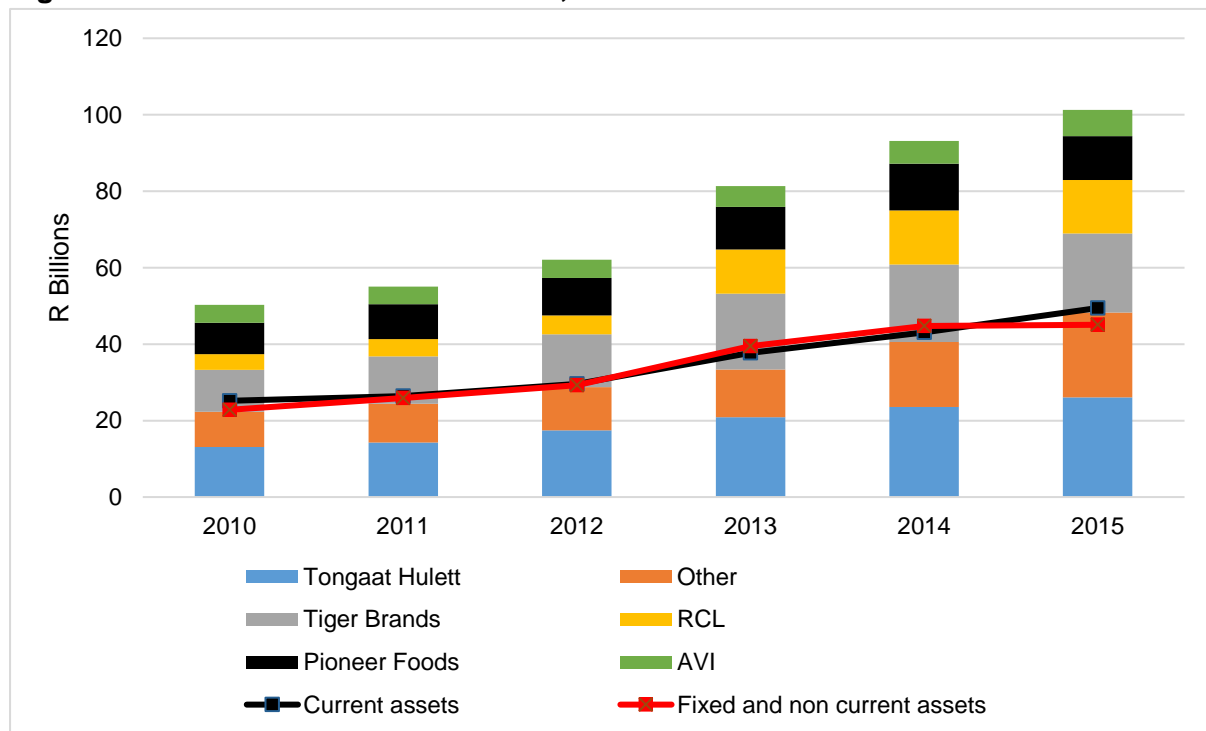
this may signal an opportunity to fill the gap with new large-scale projects in food production, particularly through support of entrant producers outside of the major integrated producers considered here.

2.1. Assets and investments

The asset base of firms in the food producers sector comprises both non-current and current assets, and while some companies also hold investments and loans on their balance sheets, these are negligible at only 5% of total assets on average. Total assets at 2012 constant prices in the industry grew at a compound annual growth rate (CAGR) of 15% and doubled overall between 2010 and 2015 (101% growth) (Figure 1).

Tongaat Hulett, Tiger Brands, Pioneer Foods and RCL Foods are the largest in terms of total assets accounting for 25%, 21%, 14% and 12% of total assets of all thirteen firms, a combined share of approximately 72%, respectively. In other words four firms control 72% of productive assets in the food sector (amongst listed firms). In the food production sector, current assets tend to be relatively high as a result of high inventory and receivables, the majority of which is sold to supermarkets on credit leading to high receivables. Non-current assets presented below do not include intangible assets which can be high for some firms due to goodwill recognised on various mergers and acquisitions and through household brands held.

Figure 1: Food sector firms total assets, 2010 – 2015



Source: INetBFA

Notes: Total assets have been adjusted to 2012 constant prices using annual CPI data for Electrical machinery and components, and no adjustments were made to take into account different financial year ends. "Other" includes Oceana Group Ltd, Clover Industries Ltd, Astral Foods Ltd, Rhodes Food Group Holdings, Quantum Foods Holdings Ltd, Sovereign Food Inv Ltd, Crookes Brothers Ltd, AH-Vest Ltd.

In the period under review, total assets grew rapidly (Table 2). Overall, assets grew by R51 billion with Tongaat Hulett, Tiger Brands and RCL Foods posting significant asset growth. Important to note is the significant increase in assets of the “Other” category of firms between 2014 and 2015 which was largely because two new firms were listed during this period: Quantum Foods and Rhodes Foods.

Table 2 also provides a detailed breakdown of assets growth per firm. Oceana (24%) and RCL Foods (25%) exhibited the highest compounded annual growth rates (CAGR) while Sovereign Foods (-1%), Pioneer Foods (6%) and Astral Foods (7%) had the lowest CAGR. However, while these large companies may have a lower CAGR, their asset growth may be significant. For example, Tiger Brands had a low CAGR of 11% but an R8 billion growth in assets compared to Oceana with a higher CAGR of 24% but asset growth of R4 billion.

Total assets analysis does not always provide an accurate depiction of the underlying pattern of investments. For instance, it does not give a clear indication of the nature of the investments (expansion, replacement, acquisitions) being made which is important in understanding sector growth drivers and potential future growth. This aspect is considered further below. Total assets data includes short-term assets investments (inventory, receivables, cash and cash equivalents etc.) which are not long-term growth drivers. Furthermore, due to accounting revaluations and market to market adjustments, total assets as presented in annual reports may give a biased picture of the state of a firm’s investments.

Table 3: Food sector asset growth, 2010 - 2015

Company	Total assets 2010 (000)	Total assets 2015 (000)	CAGR (%)	Share of growth in total assets of the sector
AH-Vest Limited	43 048	71 319	11%	0%
Astral Foods Ltd	2 998 583	4 663 280	9%	3%
AVI Ltd	4 694 900	6 887 400	8%	4%
Clover Industries Ltd	2 645 043	4 907 280	13%	4%
Crookes Brothers Ltd	530 769	1 111 985	16%	1%
Oceana Group Ltd	1 827 046	6 043 832	27%	8%
Pioneer Foods Group Ltd	8 187 715	11 471 562	7%	6%
Quantum Foods Hldgs Ltd		2 069 302	1%	-
RCL Foods Limited	4 128 412	14 017 333	28%	19%
Rhodes Food Grp Hldg Ltd		2 126 280	41%	-
Sovereign Food Inv Ltd	1 113 599	1 206 695	2%	0%
Tiger Brands Ltd	10 998 100	20 621 300	13%	19%
Tongaat Hulett Ltd	13 119 000	26 103 000	15%	25%

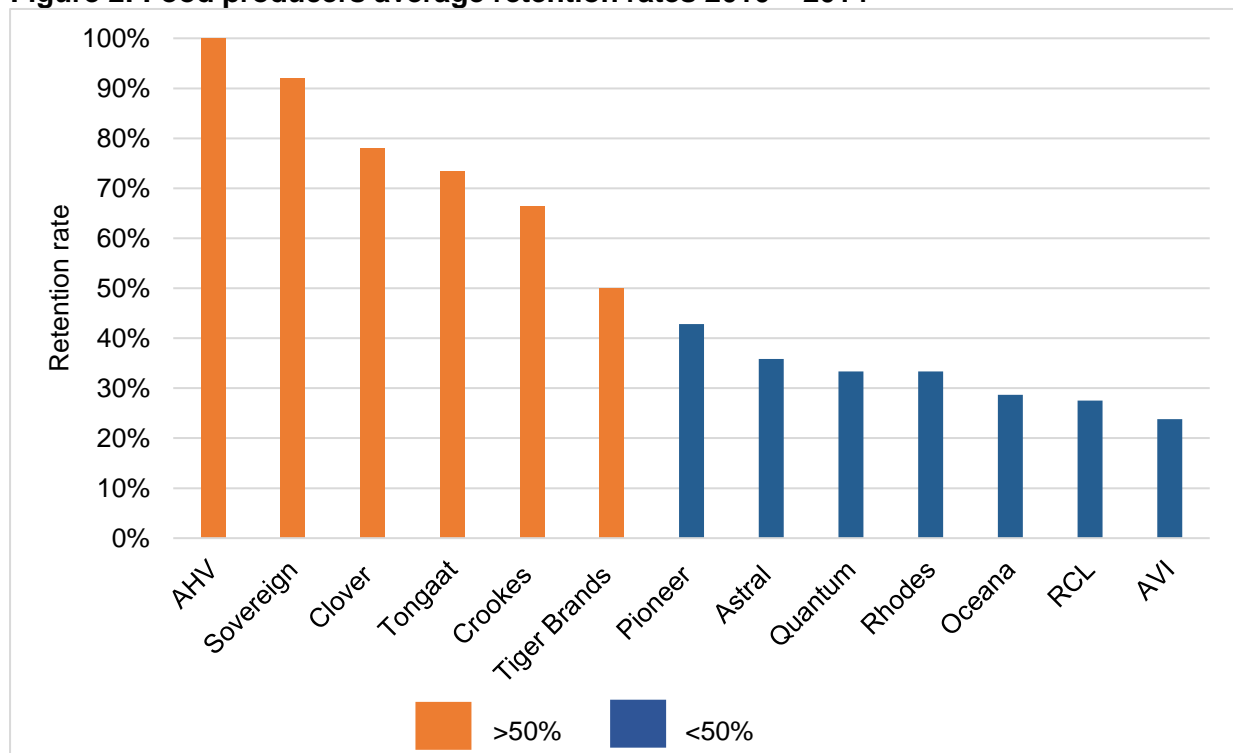
Source: INetBFA

Notes: Total assets have been adjusted to 2012 constant prices using annual CPI data for Electrical machinery and components. No adjustments were made to take into account different financial year ends.

2.1.1. Retention rate

One of the key determinants of investment is the portion of the profits that a firm retains within the company after paying dividends (retention rate). Retained earnings are a relatively 'cheap' source of funds to finance expansion and growth. As a result, companies that have high retention rates are viewed as high potential growth companies that invest substantially in new productive assets. Firms with low retention rates are usually companies that no longer have expansion capacity or do not plan to invest in new projects such that funds will not be retained within the organisation earning low returns and will instead be distributed to shareholders as dividends (Lally, 2013; Johnson and Soenen, 2003). The assessment below suggests that the outcomes for the firms considered are more mixed with some of the large established entities retaining profits significantly presumably with a view to reinvest (Figure 2).

Figure 2: Food producers average retention rates 2010 – 2014



Source: INetBFA

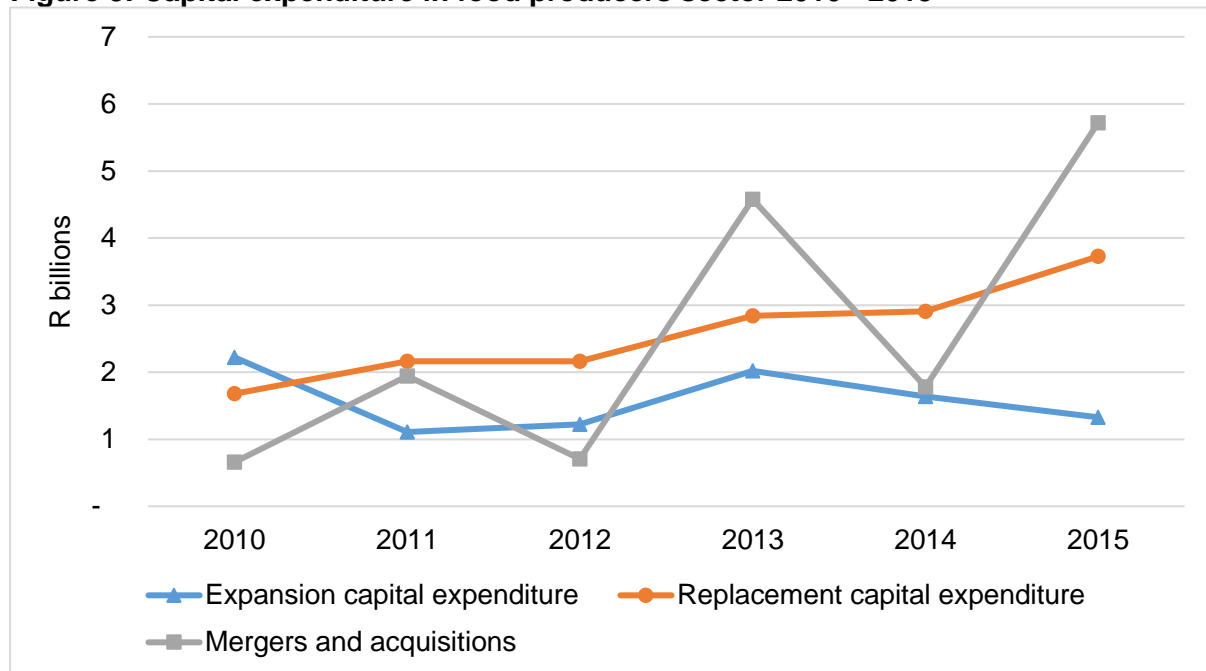
Note: Retention rate is calculated as 1 minus payout ratio. Payout ratio = dividends / net profit available for distribution to ordinary shareholders.

AH-Vest, Sovereign Foods, Clover Industries, Tongaat Hulett, Crookes Brothers and Tiger Brands have retention rates that are 50% and above. This is indicative of a group of companies with growth capacity and a greater propensity for further investment (growth companies). Pioneer Foods, Astral Foods, Quantum Foods, Rhodes Food, Oceana, RCL Foods and AVI exhibited retention rates below 50%, indicative of firms that have a lower investment drive or established presence in the market, other things equal. It may also be that the obligation to pay out dividends to shareholders by these firms (in terms of company policies) outweighs the requirement to reinvest profits. However, large companies such as Pioneer Foods and RCL Foods are likely to have reserves within their equity structure (e.g. asset replacement reserve, general reserve etc.) with which they are able to finance their investments despite having a low retention rate.

2.1.2. Capital expenditure

Actual capital expenditure (long-term assets) has been broken down into three types, namely: i) replacement capital expenditure to replace old or obsolete plants and equipment; ii) expansion capital expenditure to add to existing plants and equipment to increase production or improve efficiency; and, iii) mergers and acquisitions which involve buying existing businesses for strategic reasons such as diversification or internationalisation (Figure 3 and 4). This data was extracted from the respective companies' statement of cash flows under investing activities.

Figure 3: Capital expenditure in food producers sector 2010 - 2015



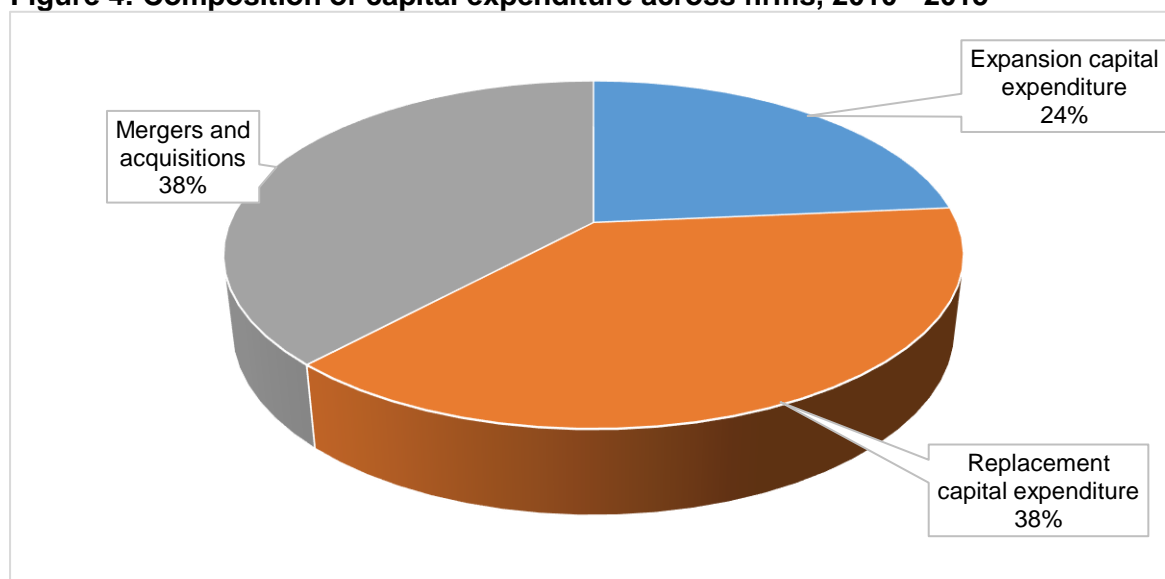
Source: Food producers' annual reports 2010 – 2015 (See breakdown by firm in the Annexure)

In the period under review, replacement capital more than doubled in nominal terms from R1.6 billion (2010) to R3.7 billion in 2015 (Figure 3). This may reflect strategies to adopt the latest technology in order to lower production costs and improve efficiency and effectiveness. It may also reflect a more challenging economic climate and exchange rate environment in the past few years in South Africa, such that it may be more prudent to replace and maintain existing assets to remain competitive.

Expansion capital expenditure, on the other hand, has decreased by almost one billion rands between 2010 and 2015. The decrease in expansion capital investment does not necessarily mean that firms have stopped investing in expanding given that several large mergers have also taken place during the period under review. However, expansion by acquisition is less desirable in terms of enhancing investment in new productive assets in the economy. Since 2010, investment in mergers and acquisitions, although vastly different from year to year, has been increasing on average while expansion capital investment has been decreasing. It appears that firms are now more inclined to expand operations through acquiring other existing businesses than expanding their own existing capacity. The volatility in mergers and acquisitions expenditure is largely as a result of the nature of acquisitions – once-off high outlay. For example, the spike in 2013 was a result of RCL Foods' acquisition of Foodcorp

and Tiger Brands' acquisition of Dangote flour mills, while in 2015 Oceana acquired US-based Daybrook for R4 billion.

Figure 4: Composition of capital expenditure across firms, 2010 - 2015⁹



Source: Food producers' annual reports 2010 – 2015

As can be seen from Figure 4, expansion of firms in the sector has primarily resulted from mergers and acquisitions and replacement expenditure rather than expansion. Key aspects of asset growth in the sector can be summarised as follows:

- RCL Foods has led the other firms in terms of growth in assets (CAGR: 28%). This growth has been driven by significant acquisitions since 2010. For example, RCL Foods in 2013 and 2014 acquired Foodcorp (one of the largest food companies in South Africa), TSB Sugar (one of the top three sugar producers), as well as Senn Foods (the largest logistics company in Botswana) (Annexure C).
- Oceana Group acquired Lusitania (a supplier of frozen, chilled and frozen foods including fish and seafood) in 2012, fishing interests in Foodcorp Limited in 2013 and US-based Daybrook in 2014.
- Tiger Brands also made several acquisitions over the years including Deli Foods of Nigeria, 49% interest in UAC Foods in Nigeria and Davita Trading Limited in 2011; and an acquisition of a 63.35% shareholding in Dangote Flour Mills, Rafiki Milling, Magic Oven Bakeries in Kenya, and Mrs Ball's trademark in Nigeria in 2013.
- Tongaat has the largest asset base but this largely comprised large land holdings of about 7970 hectares of land in prime positions on the north coast of KwaZulu-Natal (Tongaat Hulett, 2016). Its largest investments include expansion of the Xinavane sugar mill in Mozambique (2010) and an investment of R120 million in downstream capacity (2015).

The various acquisitions may result in synergies, greater scale, and cost-savings over time. However, this is also dependent on the extent to which markets remain competitive between

⁹ It is important to note that in some years companies did not report information under each category which could be due to missing data or that the firm did not make significant expenditure in that category in that particular year. Nonetheless the assessment is indicative of key trends in the sector.

the large integrated groups such that firms retain the incentive to innovate and reduce costs rather than simply acquiring assets. On the other hand, large-scale acquisitions may also lead to increased concentration in these markets, even where acquisitions are of potential rivals in adjacent markets. Furthermore, it is important to understand the extent to which acquisitions in adjacent sectors, such as that of TSB Sugar by RCL Foods, change the competitive landscape in those sub-segments. For example, the acquisition may position TSB Sugar to become a stronger rival in sugar production where there has effectively been a government-sanctioned coordinated arrangement between producers for several decades. In addition, the competition and investment implications of certain acquisitions, such as that of Foodcorp by RCL Foods, may require further assessment to better understand long-term impact beyond the period of assessment of the competition authorities.

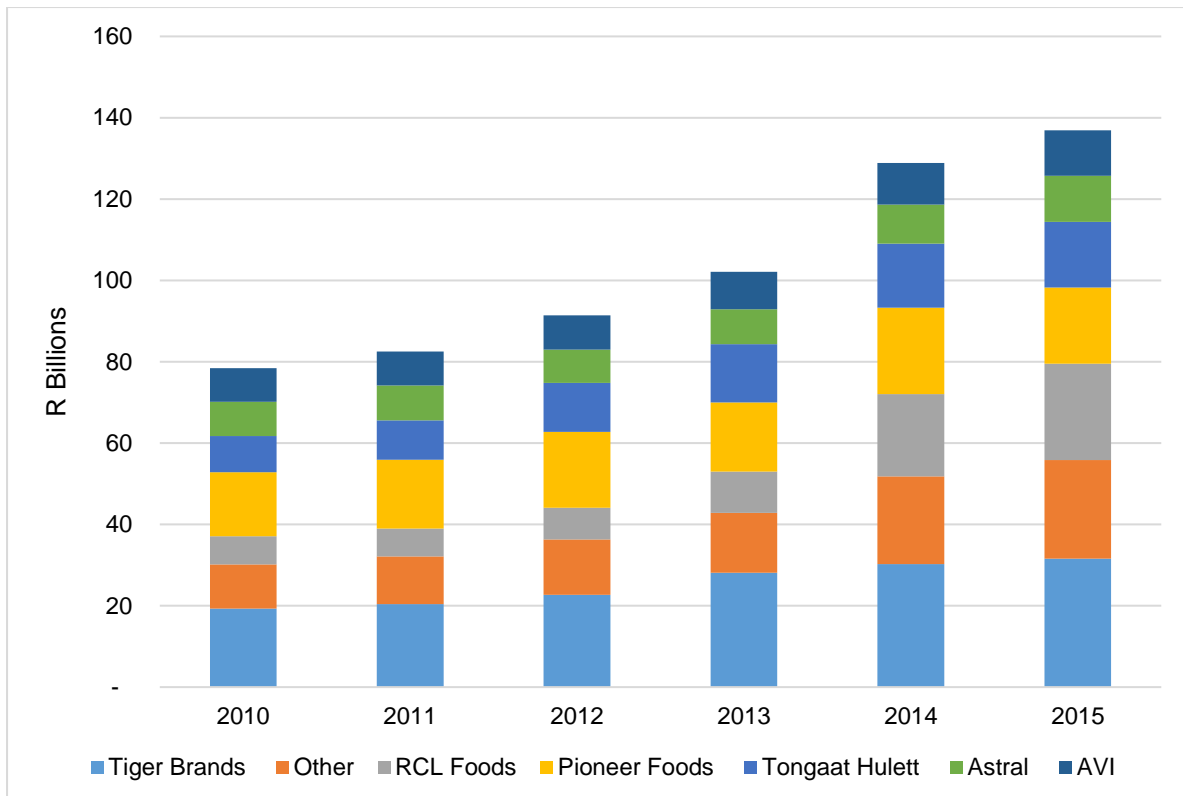
2.2. Revenue and profit margins

Total revenue¹⁰ of firms in this category grew significantly over the period with an overall growth of 70% and a CAGR of 12% (Figure 5 and Table 3). Revenue increased significantly between 2013 and 2014 from R10.1 bn to R20.2 bn. The 95% revenue increase for RCL Foods is largely due to the inclusion of 12 months of Foodcorp's results and six months of TSB's results for the first time around 2013/14.¹¹ The largest companies in the sector in terms of share of total revenue are Tiger Brands (54%), Pioneer Group (18%), RCL Foods (12%) and Tongaat Hulett (12%).

Figure 5: Food sector total revenue 2010 – 2015

¹⁰ Revenue is the gross inflow of economic benefits (cash or receivables), arising from the ordinary operating activities of an entity such as sales of goods, sales of services, interest, royalties, and dividends (IAS18).

¹¹ RCL Foods 2014 Annual Report.



Source: INetBFA

Note: Revenue has been adjusted to 2012 constant prices using annual CPI data for food and non-alcoholic beverages, no adjustments were made to take into account different financial year ends "Other" includes Clover industries Ltd, Oceana Group Ltd, Quantum Foods Holdings Ltd, Rhodes Food Group Holdings Ltd, Sovereign Food Inv Ltd, Crookes Brothers Ltd and AH-Vest Ltd.

Table 3: Food sector revenue growth 2010 - 2015

Company	Total revenue 2010 (000)	Total revenue 2015 (000)	CAGR (%)	Share of growth in sector total revenue
AH-Vest Limited	77 545	140 707	13%	0%
Astral Foods Ltd	8 367 874	11 265 962	6%	5%
AVI Ltd	8 289 700	11 243 700	6%	5%
Clover Industries Ltd	5 995 740	9 266 251	9%	6%
Crookes Brothers Ltd	308 810	526 087	11%	0%
Oceana Group Ltd	3 423 219	6 168 777	13%	5%
Pioneer Foods Group Ltd	15 731 322	18 748 201	4%	5%
Quantum Foods Hldgs Ltd		3 468 312		6%
RCL Foods Limited	6 952 789	23 726 524	28%	29%
Rhodes Food Grp Hldg Ltd		3 022 604		5%
Sovereign Food Inv Ltd	1 056 203	1 648 631	9%	1%
Tiger Brands Ltd	19 316 000	31 557 600	10%	21%
Tongaat Hulett Ltd	8 908 800	16 155 000	13%	12%

Source: INetBFA

Notes: Revenue has been adjusted to 2012 constant prices using annual CPI data for food and non-alcoholic beverages, no adjustments were made to take into account different financial year ends

2.3. Profitability

Profitability of firms in the sector is generally low relative to the profitability of other companies listed on JSE. This could be an inherent characteristic of the food producers sector. Net profit margins of food producers are lower than the JSE benchmark and have generally remained in the same range over time. On average the JSE benchmark exhibited a net profit margin that is 5% higher than the average for the food producers.

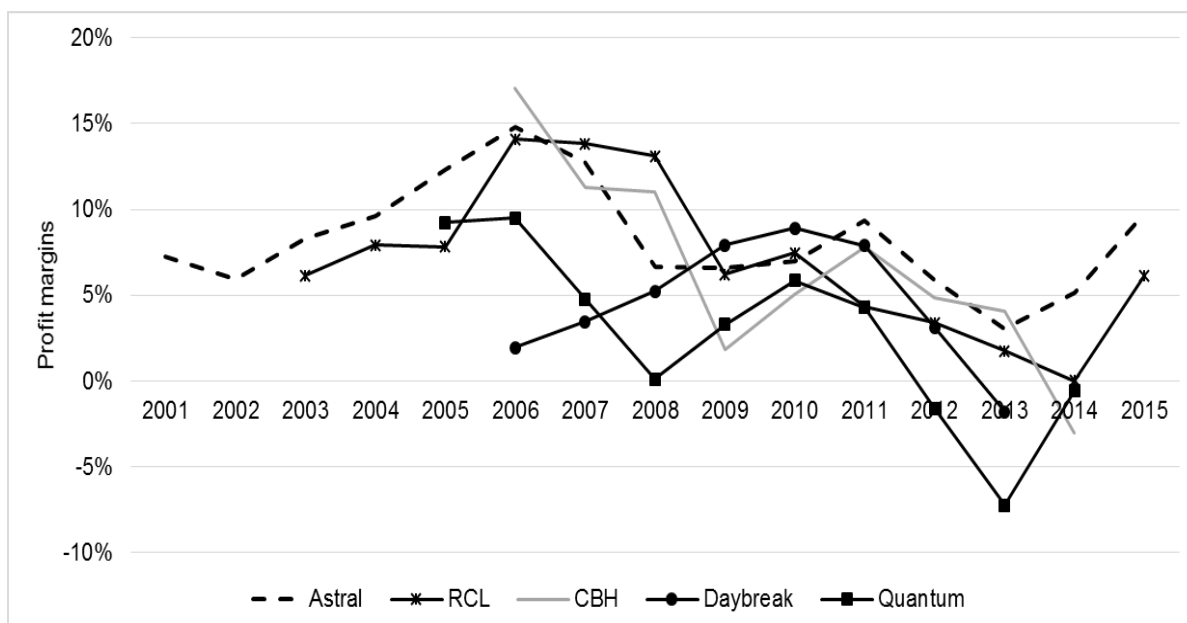
Table 4: Food sector profitability indicators 2010 - 2015

	2010	2011	2012	2013	2014	2015
Net profit margin % (Food sector)	7.0	8.4	7.5	6.9	7.0	5.9
Net profit margin % (JSE benchmark)	13.1	13.6	10.3	11.3	12.1	11.6
Return on equity % (Food sector)	18.8	15.4	16.7	14.3	12.7	14.9
Return on equity % (JSE benchmark)	20.2	18.2	14.9	15.8	16.0	13.1
Return on assets % (Food sector)	17.0	13.8	13.9	10.9	8.6	11.0
Return on assets % (JSE benchmark)	15.7	13.7	10.3	12.4	11.7	9.9
Net profit margin % (Poultry firms)	3.5	3.9	3.6	2.4	1.3	4.7

Source: INetBFA

The marginal decline in profitability could be explained by several factors, including further large investments made by a number of firms in the sector which may take some time to yield higher return on assets and margins in the initial years. As such assets may increase sharply (for example, RCL's acquisition of Foodcorp and TSB in 2013) without an immediate increase in returns measured using the different measures. This is partly evidenced by the fact that return on assets and equity for food sector firms recovers and increases by 2015 (even as that of other JSE firms declined) having declined throughout this period from 2010. It may also be that the firms have at different points experienced the effects of constrained growth and consumption in the South African economy in this period. Significant investment in countries outside of South Africa where growth has been higher and more stable signify company efforts to diversify risk and invest in markets where returns may be larger. Poor performance by firms with operations in the poultry sector which contribute 24% of the revenue in this sector is also likely to have contributed to constraints on profitability. Increased poultry imports contributed to significant decreases in the operating margins of poultry producers with some recovery in 2015 (including Astral Foods, Quantum Foods, RCL Foods and Sovereign Foods) (Figure 6) (Ncube et al., 2016; Greenberg, 2016). The recovery in 2015 followed the implementation of anti-dumping duties in the sector. During this period some firms or divisions shut down and sold certain assets as well. For example, Quantum Foods sold its Gauteng abattoir to Sovereign Foods and closed the abattoirs in the Western Cape in 2015.

Figure 6: Operating margins of main poultry firms in South Africa



Source: Ncube et al (2016)

Profitability of firms with greater diversity in terms of product categories has been higher than those food producers where a single product category accounts for a large proportion of revenues, such as the poultry firms. Tiger Brands and Pioneer Foods, for example, manufacture a more diversified range of products which perhaps allows for the mitigation of losses and risk in one product category against profits in another. The benefits of greater diversity in operations may partly explain the increased focus of RCL Foods, for example, in sugar operations through TSB Sugar and a wider range of food products through Foodcorp. The low profitability in the poultry sector was also the rationale provided by RCL Foods when divesting of its Zambian poultry operation, Zam Chick in 2016.¹²

As a general observation, even diversified food producers have experienced downward pressure on margins across product lines arising from persistent input cost pressures exacerbated by the weaker rand and a decrease in domestic demand that caused retailers to be reluctant to increase prices.¹³ It may be of some value going forward to assess further the dynamics over time for specific sub-groupings of firms based on the diversified nature of firms (e.g. Tiger Brands and Pioneer Foods) relative to more 'narrowly' focused firms such as those in the poultry industry considered briefly (as an example) above.

2.4. Employment

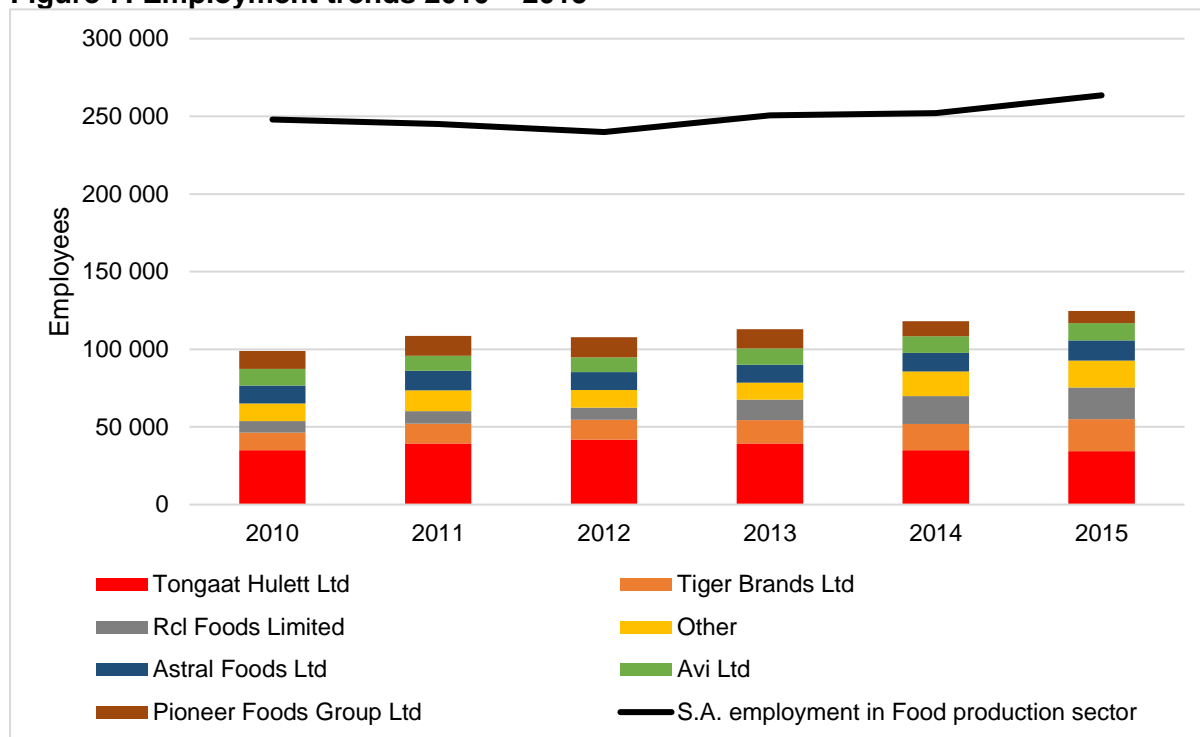
Total employment by firms in the sector as reported in annual reports increased by 24% in this period (2010: 98 957 to 2015: 122 643) (Figure 7). Tongaat Hulett accounts for the largest share of employment (33%) followed by Tiger Brands (13%), RCL Foods (11%), AH-Vest (11%) and Pioneer Foods (10%). It appears that a large component of people employed by Tongaat Hulett comprises people employed as part of its own estate cane growing operations, although this aspect is to be explored further. It is significant that firms in sugar production enjoy ongoing support and protection through legislation (including ITAC tariff protection and

¹² RCL Foods. 2016). RCL Foods - Proposed Changes to Chicken Business. *RCL Sens Report* (27 September 2016).

¹³ Tiger Brands 2014 & 2015 annual reports & Pioneer Foods 2014 annual report

sanctioned coordinated conduct). However, employment at Tongaat has declined in this period although total assets have grown. This may reflect a shift towards greater capital intensity in operations, although the effect of a large portfolio of prime property held in KZN may be contributing to asset growth along with some investments made as discussed above.

Figure 7: Employment trends 2010 – 2015



Source: INetBFA, Quantec

Note: AH-Vest limited and Quantum foods Limited's employment numbers were not available. Employment numbers include people employed in foreign operations. Other include Clover Industries Limited, Crookes Brothers Limited, Oceana Group Limited, Quantum Foods Limited, Rhodes Food Group, and Sovereign Food Inv Limited.

Overall the food producers constitute 48% of employment in the South African food and beverages sector based on StatsSA data (Figure 7). The actual contribution could be higher given that indirect jobs may not be accounted for in the reporting of these listed firms, and some are not involved in more labour-intensive upstream activities. The data on employment that is currently available from listed firms is highly aggregated and includes employment in operations outside of South Africa as well. Other sources of disaggregated information (such as StatsSA data) could be explored further in this regard.

3. Investments and acquisitions

Annexure C contains a detailed timeline of the major investments and acquisitions by the firms between 2010 and 2015. Despite the different areas of production, three major trends can be observed from the investments made by the food producers in the sector including:

- the consolidation of some divisions of production
- diversification in terms of goods produced
- expansion of the firms into southern and East Africa (internationalisation)

3.1. Consolidation and integration of operations

At various points in this period, the firms have consolidated business divisions by consolidating parts of their businesses for different reasons, for example:

- Astral integrated their Elite breeding farms and Ross poultry breeders in 2011 to benefit from operational synergies.¹⁴
- In 2013, Pioneer merged its Ceres Beverages and Bokomo Foods divisions and again in 2014 consolidated its Malmesbury and Paarl mills.¹⁵ Pioneer also disposed of non-core interests when it exited its broiler meat division by unbundling Quantum Foods. Pioneer additionally terminated its bottling contract with Pepsi in 2015. The division has apparently underperformed due to poor efficiency in manufacturing and distribution, as well as low brand awareness.
- In 2013, Eastern Trading (Pty) Ltd acquired a controlling stake of 56.9% in AHV Ltd. A key result of this acquisition was that Eastern Trading took over the distribution and warehousing of AHV.¹⁶ The process also involved the abandonment of products or divisions that are not part of the core strategy of the firms.

In terms of investment transactions made by the firms, 28 out of 92 transactions to purchase a share in another company that took place between 2010 and 2015 were to increase existing shareholding in other companies presumably to consolidate ownership and influence in existing investments as discussed below.

3.2. Diversification of goods produced and areas of operation

A number of the firms in the sector are diversifying their areas of production outside of their traditional scope. The main reasons provided for this are to reduce the risks of concentration on one area of business and to capture new markets, for example:

- Clover's acquisition of 100% of AVI's Real Juice Company and the establishment of Clover Waters in partnership with Nestle was to add to the existing beverage portfolio and gain market share in previously undeveloped portfolios. Clover also acquired Nkunzi MilkyWay (Pty) Ltd, an Ayrshire milk producer allowing the company to enter the organic milk market and other niche dairy products of which Woolworths is a customer.
- AHV launched a premium low salt additive free (tomato sauce) product in order to cater for the health conscious, niche consumer market (AHV, 2010).
- Clover and Future Life announced a joint venture in which the companies would launch a new range of functional food products targeted at the health conscious consumer, starting with a ready-to-drink version of Future Life's low GI cereal product (Botha, 2014).
- Quantum Foods acquired Safe Eggs, the only producer of pasteurised table eggs in South Africa to further diversify their product offering.
- RCL Foods acquired TSB Sugar and Foodcorp in an effort to expand its product offering beyond poultry that has been suffering losses in recent years due to cheap imports, amongst other factors.

¹⁴ Astral Foods Integrated Report 2015.

¹⁵ Pioneer Foods Integrated Report 2013 and 2014.

¹⁶ Astral Foods Integrated Report 2013.

The ability of the established food producers to diversify their offering to include new product lines and cater for developing niche markets is likely to mean that any market power and financial capabilities developed in traditional products is leveraged into these new sub-markets either directly or through acquisitions. In the case of Future Life, while the company had innovated ahead of rivals in this product range, Clover swiftly engaged them to form this partnership. Entrants in the new market segments are likely to have lower cost efficiency, financial capability and scale initially and are likely to experience some difficulty in establishing their brands such that the firms are vulnerable to acquisitions by larger incumbent rivals.

3.3. Operations in other sub-Saharan Africa countries

The majority of the firms have a presence in African countries outside South Africa and have continued to expand further into East and West Africa (Table 1). This trend is heightened by the fact that the market in South Africa is now considered to be saturated (Greenberg, 2016), with slow growth, for example:

- Tiger Brands acquired a 63.35% shareholding in Dangote Flour Mills in Nigeria,¹⁷ the Mrs Ball's trademark also in Nigeria, a flour and baking business in Kenya and gained a shareholding in East Africa Tiger Brands Industries in Ethiopia.¹⁸
- In 2015, RCL Foods also acquired a 33.5% stake in Uganda poultry producer Hudani Manji Holdings.¹⁹
- Quantum Foods approved a deal in 2014 to construct a table egg production facility that includes layer rearing, an egg laying facility and a feed mill in Uganda.²⁰
- In 2012, Clover increased its minority shareholding in Clover West Africa to 100%.²¹
- In 2011, Tiger Brands acquired Davita Trading, a South African manufacturer and exporter of powdered seasonings and beverage products, primarily due to its presence in 28 countries in Africa and the Middle East. The acquisition was executed to allow Tiger Brands to benefit from the established distribution footprint and relationships as well as obtain deeper penetration in the existing markets.
- Astral Foods also registered a new company in Ethiopia, Astral Foods East Africa SC, to develop a Greenfield integrated poultry business.²² Astral also disposed of 50% of its interest in Nutec to Cargill.

Historically, South African firms have had a strong presence in the Southern African Customs Union (SACU) countries, and in Zimbabwe. It appears from the discussion of transactions below that the trend is increasingly for South African firms to enter countries in East Africa which has not been the case in the past.

This trend of expansion into the rest of Africa speaks to a larger theme of consolidation and internationalisation of food companies as is evidenced by Cargill's acquisition of 50% interest in Nutec, an animal nutrition product and service provider. Cargill is a large multinational company, spanning 70 countries worldwide and providing food, agriculture, financial and industrial product services worldwide.²³ RCL Foods is part of a group of companies largely

¹⁷ Tiger Brands later disposed of its shareholding in Dangote Flour Mills in 2015 following a period of consistent losses.

¹⁸ Tiger Brands Integrated Reports 2013 and 2014.

¹⁹ RCL Foods Integrated Reports 2015.

²⁰ Quantum Foods Integrated Report 2014.

²¹ Clover Industries Integrated Report 2012.

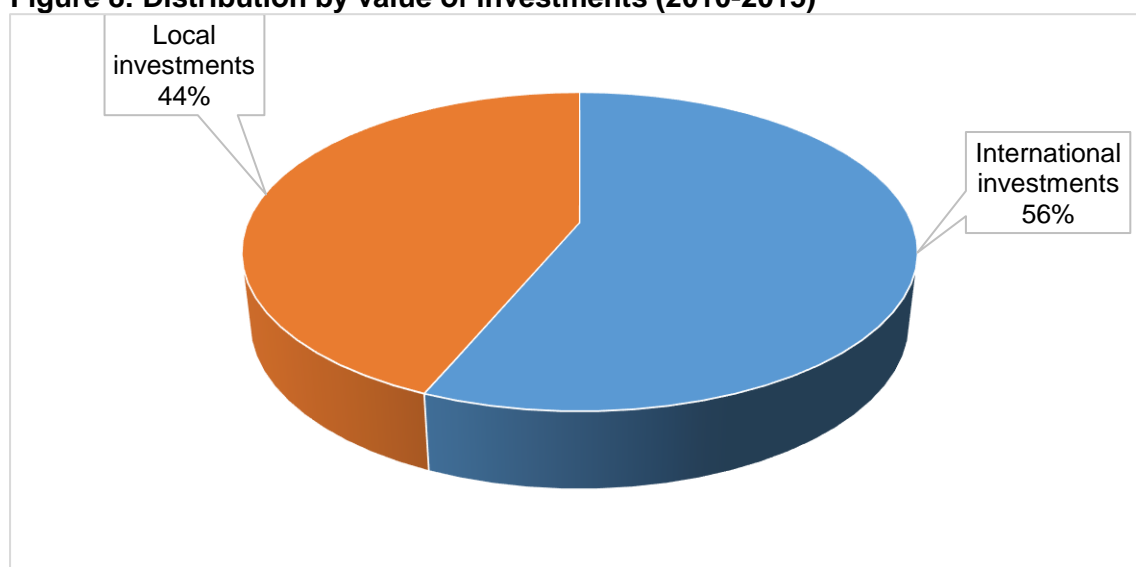
²² Astral Foods Integrated Report 2015.

²³ Cargill [website](#).

owned by Remgro, a large investment holding company in South Africa. Remgro also has a significant interest in ETG a larger vertically integrated agriculture supply business through its partnership with Pembani Remgro Infrastructure Investment Group.²⁴ ETG's large infrastructure makes it a significant player in maize, pulses, sesame seeds, cashew nuts and fertiliser sectors across the continent. The company apparently procures and distributes about 70% of Africa's pulse production and is involved in both warehousing and logistics including road, rail and water.²⁵

In total, 92 investment transactions, 35 international and 57 local, took place during the period under review. Although the total number of local transactions was more than the international transactions, the value of the local transactions was less than the value of international deals (Figure 8). An estimated total of R9.6 billion (56%) was spent on international transactions compared to the R8 billion spent on local deals (44%) in this period.

Figure 8: Distribution by value of investments (2010-2015)



Source: Authors' own calculation from various annual reports

Notes: Disposals are not accounted for in the figure above. Details on all major investments and disposals made can be viewed in Annexure C.

The investments may take the form of growth in an existing product line, investment in a new product line, an increase in an existing share, and an acquisition of a new interest in a company. The acquisition of a new share or increase in existing shares may, in turn, take the form of acquisitions to a position of majority or minority shareholding. The following observations can be made of the 92 transactions considered:

- 78 (85%) were investments into a position of majority shareholding
- 32 (35%) investments increased the firm's existing shares in an entity and 57 (62%) transactions involved the acquisition of new shares
- 6 (7%) of the transactions were a diversification into another product line different from the traditional lines of the firm.

²⁴ Pembani Remgro [website](#).

²⁵ ETG [website](#).

Of the 57 local investments made (62% of total):

- 17 (30%) were increases in the firm's existing shares, 40 (70%) were new investments
- 53 (58%) investments placed the acquiring firm in a position of majority shareholding and 4 (4%) were minority shareholding investments.

Of the 35 international investments made (38% of total):

- 19 (54%) were investments made within southern Africa
- 12 (34%) were investments made in other African regions
- 4 (11%) were investments made outside Africa (by Astral and Oceana)
- 19 (21%) were majority shareholding investments; 16 (17%) were minority shareholding investments
- 15 (43%) were an increase in existing shares and 20 (57%) involved new investments
- Two firms, AH-Vest Ltd and Sovereign Foods, did not make any international investments during the period under review.

3.4. Conditions relating to key mergers and acquisitions in the sector

As noted above, 38% of total capital expenditure by firms in this sector was on mergers and acquisitions. Between 2010 and 2015, 25 mergers comprising 2 large, 18 intermediate and 5 small mergers involving the firms listed in the sector were considered by the Competition Commission. All but eight of the mergers were approved without conditions. The large mergers involved Tiger Brands' acquisition of Davita Trading and Pioneer's acquisition of Future Life Health Products. The Tiger Brands/Davita merger was approved unconditionally as the competition authority could not find any anti-competitive outcomes or public interest issues arising.²⁶ While the Pioneer/Future Life merger received a recommendation of approval without conditions from the Competition Commission, the Competition Tribunal put in place certain behavioural conditions to restrict the flow of information between the companies and to ensure that the directors and management have an understanding of the Competition Act (Kaziboni, 2015). This was done largely to ensure that there was no sharing of competitively sensitive information between the firms, given Pioneer's other interests in the sector.

The table below lists the mergers which were approved conditionally, where merger conditions related specifically to preventing the foreclosure of rivals or preserving competition between the entities.

Table 4: Conditionally approved mergers in the food sector (2010-2015)

Primary Acquiring Firm	Primary Target Firm	Conditions
Astral Operations Ltd	The Abattoir Business currently being operated by Corpclo 2410 (Pty) Ltd	<ul style="list-style-type: none"> • The Corpclo shareholders shall continue to source, on average over a period of 6 months, no less than 90 000 day old chicks per week from Stonor. • Transparent prices and terms and conditions for each for dealings between Astral and Corpclo. • All discounts and incentive schemes offered by the Astral Group will be

²⁶ Tiger Brands Ltd v Davita Trading (Pty) Ltd (18/LM/Mar11) [2011] ZACT 47 (8 July 2011).

		<p>communicated separately from the day old chick and broiler feed prices, and will not be designed so as to compel the Corpclo shareholders to source broiler feed and day-old chicks from the Astral Group to the exclusion of competitors.</p> <ul style="list-style-type: none"> • The Corpclo shareholders will report to the Commission every three months on their obligation to procure from Stonor.
Oceana Group Limited	V&A Cold Store (Pty) Ltd	<ul style="list-style-type: none"> • Allow third-party fish customers to retain access to cold storage facilities.
Clover SA (Pty) Ltd	Real Juice Co. Holdings (Pty) Ltd	<ul style="list-style-type: none"> • Extension of agreements with independent distributors
Oceana Group Limited	The fishing business of Foodcorp (Pty) Ltd	<ul style="list-style-type: none"> • The divestiture of the Glenryck brand and the small pelagic fishing rights of Foodcorp.
Clover S.A. (Pty) Ltd	Nkunzi Milkyway (Pty) Ltd	<ul style="list-style-type: none"> • Clover will invest in production capacity and facility upgrades
Pioneer Foods Proprietary Limited	Future Life Health Products Proprietary Limited	<ul style="list-style-type: none"> • The founder shareholder of Future Life will exercise final and determinative power regarding strategic marketing and/or pricing policies for Future Life and its products. • None of Pioneer's representatives appointed to Future Life's board can be directly involved in the day-to-day management of Pioneer's operations or be a member of Pioneer's executive management team. • Pioneer shall be administered as an independent unit as at the implementation with certain exceptions. • The merging parties shall establish 'ethical' and/or 'invisible' and/or 'Chinese walls' to restrict the flow of sensitive information. • Future Life's members (at the cost of Future Life) shall undertake regular training and/or awareness sessions in relation to the Competition Act

Source: Competition Tribunal [website](#)

The conditions placed on the companies show the increased emphasis on the consideration of public interest issues (Rhodes/Del Monte; Oceana/Phambili; Clover/Real Juice; Clover/Nkunzi). It also shows the care being taken in markets that have traditionally had anti-competitive issues. There is a clear consideration of the impact on downstream competitors (Oceana/V&A; Astral/Corpclo; Clover/Real Juice) and an emphasis on the restriction of information exchange between companies (Astral/Corpclo; Pioneer/Future Life). The Ocean/Foodcorp merger included conditions that required the company to divest Foodcorp's small pelagic fishing rights as well as the Glenryck brand. The Commission believed that the merger would likely lead to a substantial lessening of competition in the canned pilchards

market.²⁷ The Competition Appeal Court upheld Oceana's appeal to maintain the fishing rights on the basis of lack of sufficient evidence by the competition authorities on the likely anti-competitive effect resulting from the possession of the fishing rights.²⁸

It is worth noting that in November 2016, the Competition Commission of South Africa recommended the approval of a merger between Country Bird Holdings, an integrated poultry producer and Sovereign Foods, which continues a trend of consolidation in the sector. Country Bird Holdings Limited (CBH), although not currently listed is a large poultry producer operating in South Africa, Botswana, Zambia, Namibia, Zimbabwe, Mozambique and Nigeria with significant market share at various levels of the value chain including animal feed and grandparent stock production. CBH was formerly a minority partner in a joint venture controlled by Astral in which it was obliged, through an exclusive contract to source at least 90% of its breeding stock from Astral (Ncube et al, 2016). Following a complaint of exclusionary abuse with the Competition Commission in 2007, CBH exited the venture and later started its own breeding business.

There are currently only three sources of parent stock in South Africa; Astral, RCL and CBH making CBH a significant player in the market (Ncube et al, 2016). In the Zambian market, CBH had an estimated market share of 40% in the day old chick market as of 2013 (CBH, 2013). In addition, CBH's integrated animal feed producer is one of three major players in the animal feed market (Ncube et al, 2016). The Competition Commission did not find any evidence that the merger would result in a substantial lessening or prevention of competition. It, however, went on to impose public interest conditions regarding job losses, as well as a 4% BBBEE shareholding requirement on the merging parties.²⁹

4. Market structure and changes over time:

4.1. Market shares

The food sector remains highly concentrated when considered at the level of different market segments and product categories, with few firms holding large market shares, for example:

- RCL Foods and Astral have a combined 46% market share in the broiler meat production market (poultry)³⁰
- Rhodes Food group has a 66.3% market share in canned meats, a 40.5% market share in canned fruits and 38.5% market share in the canned vegetables market in 2014³¹
- Tiger Brands has 48.6% market share of the retail value in the sugar confectionery market³²
- AVI's National Brands has a 45.4% market share in the biscuits and snack bars market. Pioneer and RCL's Foodcorp have the next highest shares with 10.9% and 5.1% as of 2015³³

²⁷ Oceana Group Limited and Another v Competition Commission (130/CAC/May14) [2014] ZACAC 3 (19 December 2014)

²⁸ Oceana Group Limited and Another v Competition Commission (130/CAC/May14) [2014] ZACAC 3 (19 December 2014)

²⁹ Statement on decisions of the Competition Commission, 17 November 2016.

³⁰ Ncube et al (2016)

³¹ Rhodes Food Group Integrated Report 2015.

³² Euromonitor. (2016). Sugar Confectionery in South Africa.

³³ Euromonitor. (2016). Sugar Confectionery in South Africa.

- Pioneer's White Star super maize meal brand has 25.3% of the market while Tiger Brands' Ace super maize meal holds another 22.5% of the market in white maize milling³⁴
- Pioneer Foods and Tiger Brands together hold 56% of the share of the breakfast cereal market in 2015³⁵, and also hold 54.9% of the share in baked goods
- Oceana's Lucky Star brand has market share of 73.1% in the canned pilchards market³⁶
- Clover has a 79.3% market share in the dairy fruit mix market, 42.9% share in the pure fruit juice market, 28.8% in the cream market, 25.6% share in flavoured milk market, 14.4% in UHT milk and 24.1% in the fresh milk market³⁷
- Crookes Brothers has a 40% market share in the bananas market in Western Cape³⁸
- In 2013, Tongaat Hulett Ltd had a market share of 31.7% in the sugar industry.³⁹

RCL and Astral's market shares in poultry; Pioneer and Tiger Brands shares in maize meal, breakfast cereal and baked goods; and AVI and Pioneer's shares in biscuits and snack bars illustrates that in a number of markets in the food sector, effective duopolies exist which could limit competition and promote collusion. Several of the firms including Tiger Brands, Pioneer, Foodcorp and others have a history of collusion in different product markets as noted further below.

Tiger Brands' large shareholding in Oceana could also extend Tiger Brands' influence and dominance beyond its traditional areas of operation.

4.2. Entry conditions and scale of entry

Most of the companies identified for the study have been in operation for at least ten years. 'New' companies such as Quantum Foods which was listed in 2014 was unbundled from Pioneer when it chose to focus on its branded consumer products business. In fact, a number of the companies in the food sector have simply been divested divisions of other longer established companies in the sector.

- Astral, for instance, was established and listed in April 2001 on the JSE Limited after Tiger Brands unbundled its agricultural operations.
- Vector Logistics, a division of RCL Foods was originally part of AVI's subsidiary I&J
- Quantum Foods sold its Gauteng abattoir to Sovereign Foods thus exiting the broiler market
- CBH which is currently in the process of merging with Sovereign Foods was previously in a joint venture with Astral.

The main means of entry and expansion into food processing and production has been through acquisitions to access new and niche markets. The high percentage of expenditure

³⁴ Greenberg, S. (2016). Corporate power in the Agrofood system and South Africa's consumer food environment. *Institute for Poverty, Land and Agrarian Studies (PLAAS), Working Paper No. 32*. Available from: <http://www.plaas.org.za/plaas-publication/wp32-agrofood-sg>

³⁵ Euromonitor. (2015). Breakfast Cereals in South Africa.

³⁶ Oceana Group Limited and Another v Competition Commission (130/CAC/May14) [2014] ZACAC 3 (19 December 2014)

³⁷ Clover Industries Integrated Annual Report 2016.

³⁸ Crookes Brothers Ltd Integrated Annual Report 2016

³⁹ Department of Agriculture, Forestry and Fisheries. (2013). Sugar. Available from: <http://www.nda.agric.za/docs/FactSheet/Sugar06.pdf>

on mergers and acquisitions as discussed above illustrates this trend. Greenfield entry by companies in South Africa has been rare, only taking place in new regions and/or relatively unsaturated markets (Ncube et al, 2016). In East Africa where there are few large integrated poultry producers, Quantum Foods approved a project in 2014 to construct egg production, layer rearing, egg laying and feed mill facilities. Astral Foods similarly is developing a greenfield integrated poultry business in East Africa.

Due to the high barriers to entry and difficult economic period in South Africa, companies appear to have found it more feasible to expand by acquiring smaller firms and operations in a potential segment, or through joint ventures as in the case of Clover discussed above.

The agro-processing or food production sector has long been identified as highly concentrated and characterised by significant barriers to entry (Ncube et al, 2016). Barriers to entry in the agro-processing sector include high capital requirements, the high level of coordination required in some segments, significant scale economies, high concentration, access to inputs and markets as well as the strategic behaviour of incumbents.

High capital requirement

The agro-processing sector of the economy generally requires a high level of capital. In the poultry sector, for example, it takes 15 to 24 months for a commercial-level day old chick to be produced from grandparent stock. A poultry producer would require about two years' worth of capital to maintain the business until it would be able to gain revenue from the sale of its first commercial broilers (Ncube et al, 2016). Green Fields Chicken (GFC), a relatively new entrant into the poultry industry in 2010, required about R350 million to enter the poultry business as a vertically integrated operator (Ncube et al, 2016). In the milling industry, the construction of a large-scale feed mill with a capacity of about 12 000 – 30 000 tonnes per month would cost between R20-25 million assuming land was already available. It would also take between 18-24 months to construct for an entrepreneur entering only one level of the value chain. Importantly, for an entrant firm to be able to compete effectively with the listed firms it will have to operate or have agreements at several levels of the value chain to be effective.

High levels of coordination

Another major constraint in this sector is the high levels of coordination required. In the fishing and dairy industries, for instance, there must be seamless coordination between the division acquiring and packaging the product and those storing and distributing the product. To ensure a constant supply of a product, firms employ long-term contracts with suppliers. For instance, Sovereign has signed a long-term contract with Quantum Foods to receive 250 000 live birds weekly (Quantum, 2015). Economies of scale are critical in the production of animal feed to the rearing, slaughter and packaging of the broiler meat products that requires coordination to ensure effective use of capacity and that inputs are acquired just as they are needed. For entrants, without these networks and significant offtake contracts, it can become extremely difficult to break into the industry.

Access to customers

Large supermarket chains make use of specialised procurement systems that place stringent requirements on suppliers with regards to costs, the volumes of products they supply, as well as the quality of their products (das Nair and Chisoro, 2015). Some of these requirements

include charging slotting fees in order for the supplier to have access to shelf space. The supplier may also need to pay a marketing fee if a new product is to be launched. Further costs include a distribution allowance and swell allowance. The distribution fee is charged where the product goes to the distribution centre to ensure the product is delivered to the store while the swell allowance is compensation for damaged or spoiled goods that cannot be returned to the supplier (das Nair and Chisoro, 2015). Producers can also supply the fast-food segment and would ideally prefer to do so because it is more lucrative. However, fast-food chains typically have even more specific requirements than retail chains on size and weight of the products purchased which can be difficult for an entrant to meet (Ncube et al, 2016).

Strategic behaviour by incumbents

There has been a number of cases of anti-competitive conduct involving firms in the sector, including cartels. The bread cartel involved four bread producers; Premier, Tiger Brands, Foodcorp and Pioneer, three of which are considered in this study. The companies had agreed to raise prices for bread above competitive levels for an extended period of time. In addition, Pioneer admitted to launching ‘fighter brands’ to deter entry and persuade rivals to raise the price of their bread (Grimbeek and Lekezwa, 2013). Pioneer anticipated the potential administrative penalties for the white wheat and white maize as well as the bread cartel by making financial provisions totalling R350 million (Pioneer, 2010).

In the poultry industry, Astral admitted to abusing its dominance by restricting its minority partner from contracting with any of Astral’s competitors. Astral had specific provisions in which independents had to source both their breeding stock and animal feed only from Astral (Ncube et al, 2016). In the dairy industry, four separate charges were brought against Clover and other dairy firms for collusion and price fixing in 2006 although the Competition Commission later withdrew the case due to irregularities in the investigations (Ncube et al, 2016)

4.3. Policy interventions and implementation

Major cross-cutting policy programmes that have an impact on the food sector in South Africa may not necessarily seek to influence food firms to change or adjust their strategies and behaviour in a manner that promotes black industrialists, expansion in South Africa, or enable entry of new rivals. Some key changes in policy speak more to issues arising as part of the policy priorities of other sectors and government departments, such as the salt and sugar tax requirements in healthcare. Examples of these policies include consumer protections, labelling of food products, poultry injection caps, small-scale fishing, anti-dumping duties, restrictions on salt, and taxes on sugar-sweetened beverages (Table 5).

Table 5: Major cross-cutting policy interventions in the food sector

Year	Policy intervention	Responsible Department/Commission
2011	Consumer Protection Act (Act 68 of 2008) amendments	Department of Trade and Industry
2015	Foodstuffs, Cosmetics and Disinfectants Act (Act 54 of 1972) amendments to adjust packaging and labelling of food products	Department of Health

2015	Cap poultry injection at 15% as of October 2016	Department of Agriculture, Forestry and Fisheries
2015/16	Small-scale fishing policy implementation	Department of Agriculture, Forestry and Fisheries
2015	Poultry anti-dumping duties	International Trade Administration Commission of South Africa
2016	Restriction on salt added to food products	Department of Health
2016	Tax on sugar-sweetened beverages, effective April 2017	National Treasury

The most significant policy changes affecting firms in the sector relate to poultry production and imports, as well as restrictions on sugar and salt content of various products. Other legislation, such as the introduction and enforcement of consumer protection policies cut across sectors although there is no indication of direct financial impact in terms of costs of compliance or penalties for the firms considered. A more detailed assessment of the impact of sugar taxation and anti-dumping measures may be required.

4.3.1. IPAP impacts lead firms in the food sector

In addition to the above mentioned policies that are not led by the DTI, there are industrial policy changes made by the DTI through the Industrial Policy Action Plan (IPAP). The overarching strategy for the development of firms in the sector is contained in various iterations of IPAP. IPAP 2016/17–2018/19 (and previous iterations) notes the DTI’s intent to support small local enterprises operating within the food sector by forming public-private partnerships with lead firms in the food sector. For instance, the DTI in partnership with DAFF and Economic Development Department (EDD) signed a Memorandum of Understanding (MoU) with Tiger Brands for grassroots enterprise development (DTI, 2016).

The DTI also provides grants and tax incentives in the agro-processing sector. A grant to the value of R602 million was offered in the agro-processing sector for the manufacturing competitiveness enhancement programme in 2015/16 (DTI, 2016). Additionally, tax incentive allowance schemes of about R9.5 billion were approved for several sectors, including agro-processing, food and beverages. The sector is considered a priority sector because it has the potential to create employment through labour-intensive activities and enable value-addition growth. Additionally, IPAP 2016/17-2018/19 emphasises the need to expand South Africa’s food sector by identifying a high growth niche and emergent market opportunities for support and development (DTI, 2016). For the period 2016/17-2018/19, 30 niche and emergent market opportunities to replace imports and increase exports will be identified and at least ten will be commercialised and provided with extensive support to optimise employment creation opportunities (DTI, 2016).

4.3.2. Lessons from supplier development programmes

There are lessons that can be drawn from efforts of other agencies in terms of enhancing entry and dynamism in the sector, particularly in terms of conditions confirmed by the Competition Tribunal in various mergers in the food and retail sector. For instance, in the Wal-mart/Massmart merger, the Tribunal confirmed merger conditions in the interest of small local suppliers amongst other public interest reasons (Competition Commission of South Africa, 2016). The condition set to protect local suppliers was that Wal-mart would establish a supplier

development programme to the value of R100 million. The programme enabled the entry of new black-owned suppliers such as Lethabo Milling while also ensuring that previous local suppliers of Massmart continued to supply Wal-mart (see Ncube et al, 2016; Competition Commission of South Africa, 2016).

Sections above also set out some of the conditions the competition authorities have placed on merging firms. As mentioned, other than ensuring continued employment, the Tribunal made provisions to ensure continued access to supply by downstream competitors, transparent pricing schemes and the prohibition of exclusive contracts as in Astral's acquisition of Corpclo's abattoir business.

In developing policies that support local enterprise development, there may be scope to analyse the specific provisions and lessons from the various programmes discussed and distil those aspects which can inform ongoing policy-making in relation to the sector. In particular, it would be important to determine whether commitments from large enterprises to develop smaller suppliers could be obtained by means other than through various merger transactions considered by the competition authorities. This speaks to increasing the orientation of large food producing groups towards making investments within the South African economy and where possible supporting the development of entrant, black-owned suppliers in particular.

5. Summary of key observations

The food producing sector has experienced rapid growth over the last decade with a real value-add higher than the manufacturing sector as a whole. The assessment above raises a number of key observations which should inform the consideration of possible policy options.

- The food processing sector in South Africa has grown more rapidly than other sectors and the economy overall and with a real value-add of 34% more in 2014 than in 2004.
- The ownership of most of the firms in the food sector is largely comprised of nominee companies of the large banks.
- The sector is highly concentrated with the different companies holding significant market share in a number of segments in the food sector. High entry barriers also make it difficult for new firms to enter and compete effectively in the sector. Entrants in traditional or niche markets have in some cases been acquired by larger players or co-opted through joint venture and partnership deals (e.g. Future Life/Clover).
- Total assets at 2012 constant prices in the industry grew at a CAGR of 15% and doubled overall between 2010 and 2015 (101% growth).
- Tongaat Hulett, Tiger Brands, Pioneer Foods and RCL Foods are the largest in terms of total assets accounting for 25%, 21%, 14% and 12% of total assets of all thirteen firms, a combined share of approximately 72%.
- Pioneer Foods, Astral Foods, Quantum Foods, Rhodes Food, Oceana, RCL Foods and AVI exhibited retention rates below 50%. It may be that the obligation to pay out dividends to shareholders by such firms (in terms of company policies) outweighs the requirement to reinvest profits over the long-term and expand capacity.
- Expansion capital has decreased in the period under review while expenditure on mergers and acquisitions has been increasing on average.

- Expenditure on international transactions is higher than that on local transactions with a total of R9.6 billion (56%) spent on international transactions compared to R8 billion spent on local deals (44%)
- This trend of expansion into the rest of Africa speaks to a larger theme of consolidation and internationalization of food companies especially considering the highly concentrated nature of the sector domestically

While there have been a number of policy interventions into the sector by various agencies, they have not all had the objective of encouraging entry and competition in the sector. The conditions the competition authorities have placed on the merging parties in the sector, however, have done much to reduce anti-competitive behavior and to encourage the entry of new participants. However, this is generally not enough to encourage greater participation. Key lessons from different transactions considered by the competition authorities include an emphasis on supplier development programmes to support (black) entrants in production and access to the final market, which is a key barrier to entry (see, for example, Walmart/Massmart, Pioneer). These approaches align with DTI objectives as referred to most recently in IPAP 2016/17-2018/19.

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ANNEXURE A: Company descriptions

AH-Vest Limited

AH-Vest Limited trades as food brand All Joy. AH-Vest Limited (All Joy Foods Ltd) started as a tomato sauce factory in Newtown, Johannesburg. The firm got listed on the Johannesburg Stock Exchange's alternative public equity exchange (AltX) in 2004. Prior to the company transferring its listing to AltX, the company was a public company from 07 December 1998, and was listed on the JSE Limited on 21 December 1998. Currently, the company is the second largest manufacturer of tomato sauce and other food related products in South Africa. AH-Vest Ltd operates in the sauces segment. As the second largest tomato sauce manufacturer in South Africa, AH-Vest Ltd has subsidiaries in the food sector that are aligned to manufacturing tomato sauce. The Company's subsidiaries include All Joy Property Holdings Proprietary Limited and All Joy Foods Proprietary Limited. The Company's products include tomato sauces, mayonnaise, specialty sauces, and other condiments and preserves. The majority of AH-Vest Ltd shares (81.39%) are held by certified shareholders. PSG Genomineerdes Eiendoms Beperk owns 15.77% of the shares and the remaining shares are held by several companies with less than 5% shareholding.

Astral Foods Limited (Astral)

Astral Foods Limited (herein referred to as Astral) is an integrated poultry producer, which is engaged in manufacturing of animal feeds, broiler genetics, production and sale of day-old chicks and hatching eggs, breeder and broiler production, abattoir and further processing operations and sales, and distribution of various poultry brands. Although Astral's Industry Classification Benchmark (ICB) sector is Food Producers, the firm's ICB sub-sector is Farming, Fishing, and Plantation. Astral was established and listed in April 2001 on the JSE Limited after Tiger Brands unbundled its Agricultural Operations. The company's business units include Festive and Goldi, Mountain Valley, County Fair, National Chicks, Ross 308, Meadow Feeds, Provimi SSA, CAL, Tiger Chicks, Tiger Animal Feeds, Mozpintos, National Chicks Swaziland and Meadow Mozambique. It has poultry operations in South Africa, Mozambique, Swaziland and Zambia, and feed mills in South Africa, Mozambique, and Zambia. Poultry Operations are located in South Africa, Mozambique, Swaziland, and Zambia whilst Feed Mills are situated in South Africa, Mozambique, and Zambia. In 2016, the shareholders that owned at least 5% of the firm were Standard Bank Nominees at 35.17%, First National Nominees (Pty) Ltd at 19.17%, Sharestock Nominees (Pty) Ltd at 9.56% and Nedcor Bank Nominees Ltd 7.26%.

AVI Limited (AVI)

AVI's extensive brand portfolio includes more than 50 brands of which AVI owns 33 brands. AVI's brands span a range of categories including hot beverages, sweet and **savoury** biscuits and snacks, frozen convenience foods, out-of-home ranges, personal care products, cosmetics, shoes, accessories, and fashion apparel. Some of the more famous brands including Five Roses, Freshpak, House of Coffees, Frisco, Koffiehuis and Ellis Brown in the Beverages category; Bakers, Pyotts, Baumann's, Willards and Provita in the Biscuits and Snacks category; I&J in the Frozen Foods category; as well as Ciro, Lavazza and Douwe Egberts Cafitesse for the Out Of Home market.

AVI listed on the Johannesburg Stock Exchange in 1944 in the Food Products sector. The majority shareholder of AVI is Standard Bank Nominees with a 40.16% stake. Other shareholders of AVI holding at least 5% shares are First National Nominees (Pty) Ltd at 12.03%, Goudstad Nominees (Pty) Ltd with 10.10% and Ferbros Nominees (Pty) Ltd with 5.73%.

Clover

Clover started as a co-operative in 1898 and evolved to form what is today known as Clover S.A. (Pty) Ltd in 1994. Clover Industries' main focuses are producing dairy and non-dairy beverages, distributing chilled and ambient consumer products, and selling and the merchandise of consumer goods. The firm listed in December 2010 and has subsidiaries in West Africa, Swaziland, Namibia, and Botswana. Clover shareholders holding at least 5% of the firm's shares are Standard Bank nominees at 28.6%, First National Bank (FNB)

securities (Pty) Ltd at 17.12%, First National Nominees (Pty) Ltd at 11.57%, Nedcor Bank Nominees Ltd at 8.81%, Ferbros Nominees (Pty) Ltd at 8.12% and Goudstad Nominees (Pty) Ltd at 7.85%.

Crookes Brothers Limited (Crookes Brothers)

Crookes Brothers was incorporated in 1913 and listed on the JSE in 1948. The Crookes Brothers group produces a range of primary agricultural products, with sugar cane being the largest contributor to both revenue and profits. The group also farms bananas, deciduous fruit, grain and sheep on properties located in South Africa, Swaziland and Zambia. Similar to Astral, Crookes Brothers' ICB sector is Food Producers, the firm's ICB sub-sector is Farming, Fishing, and Plantation. Crookes Brothers Limited (CKS) as a holding company has several joint ventures. The joint ventures are Mthayiza Farming (Pty) Limited at 45% and KwaCele Farming (Pty) Limited at 49%. The associates of the firm are 25% Lebombo Growers (Pty) Limited and 37% Mpambanyoni Sand (Pty) Limited. The firm also has operations in Swaziland and Zambia. In 2016 shareholders holding at least 5% shares were Standard Bank Nominees at 52%, Ferbros Nominees (Pty) Ltd at 15.38%, FNB Securities Pty Ltd at 9.36%, Certificated Shareholdings at 8.34%.

Oceana Group Limited

Oceana Group was incorporated in 1918 and is the largest fishing company in South Africa. It is also an important participant in Namibia's fishing industry. The firm's fishing business is the catching, processing, marketing, and distribution of canned fish, fishmeal and fish oil, horse mackerel and hake, lobster, and squid. The business includes mid-water fishing (horse mackerel), deep-sea trawling (hake), as well as inshore fishing for pelagic fish (anchovy, redeye herring, and pilchard). The firm also provides Commercial Cold Storage which provides public refrigerated warehouse facilities with operations in Cape Town, Durban, and Johannesburg. Oceana products are sold and consumed in many African countries, Asia, the European Union (EU), United States of America (USA), Australia and Walvis Bay. Oceana is listed on both the Johannesburg Stock Exchange (JSE) and Namibian Stock Exchange (NSX). Oceana's shareholders are; Tiger Brands (42.1%), Brimstone (16.8%), Oceana Empowerment Trust (10.2%), and other (30.9%).

Pioneer Foods Group Limited (Pioneer Foods)

Pioneer Foods is the second largest listed fast-moving consumer goods (FMCG) company in South Africa, producing and distributing a range of branded food and beverage products. Power brands of Pioneer Foods are Weet-Bix, Liqui-Fruit, Ceres, Sasko, Safari, Spekko and White Star. The company in its current form, after the merger between Sasko and Bokomo, was established in 1997 and listed on the Johannesburg Stock Exchange in 2008. The company has operations and joint venture investments in Nigeria, Botswana and Namibia. Pioneer's public shareholders include; Government Employees Pension Fund (10.9%), Ryla 21 (Pty) Ltd (4%), Other shareholders (47.3%). The non-public shareholding statistics stand as follows; Zeder Investments Ltd (25%), Pioneer Foods (7.7%), Pioneer Foods BBEE Trust (4.6%), Pioneer Foods Share Incentive Trust (0.3%), Directors including subsidiaries (0.2%). Given the above-mentioned shareholders, it is clear that none of the major retail banks of South Africa own at least 5% of Pioneer shares as commonly found across the food sector.

Quantum Foods Holdings Limited (Quantum Foods)

Quantum Foods was formerly part of Pioneer Group but was unbundled and listed separately on the JSE on 6 October 2014. Quantum Foods has three focus areas, animal feed, eggs and layer livestock, and broilers. In South Africa, animal feed is manufactured and sold under the Nova brand. Eggs are sold primarily under the Nulaid and Quantum brands, while layer livestock (day-old chicks and point-of-lay hens of the Lohmann breed) is sold under the Bergvlei Chicks brand. The egg business is the only national producer and supplied 50% of the approximately 862 million eggs sold to the retail sector in 2014. Quantum also sells day-old broiler chicks of the Cobb breed are sold under the Bellevue Chicks brand. The company has operations in Zambia, Uganda and distributes nationally in South Africa as well as into Namibia, Botswana, Swaziland, and Mozambique. The

shareholders worth at least 5% shares of Quantum Foods are PSG Genomineerdes Eiendoms Beperk (42.24%), Standard Bank Nominees (10.58%), First National Nominees (Pty) Ltd (9.37%), Nedcor Bank Nominees Ltd (8.61%) and FNB Securities (Pty) Ltd (6.22%).

RCL Foods Limited (RCL Foods)

RCL Foods is a food producer with core businesses in chicken, sugar, grains and animal feed. It is also expanding into the added-value products segment of the market that includes; food solutions, specialty, pies, grocery, baking, beverages, and added value chicken. RCL Foods has operations across South Africa, Swaziland, Namibia, Botswana, Uganda, and Zambia. The company has expanded rapidly in the last five years acquiring a sugar company (TSB Sugar), Foodcorp, and a logistics company in Botswana. The firm supplies tailored chicken solutions for quick service restaurant (QSR) and services brands such as Kentucky Fried Chicken (KFC), Nando's and Chicken Licken. RCL Foods also has partnerships with various retailers for whom RCL Foods produce and package customised, retailer-owned brands in categories such as sugar, mayonnaise, peanut butter and pet food. The firm's ownership structure has retail banks; a common trend within the South African food sector Shareholders of RCL Foods are TSB Sugar (71.26%), Standard bank Nominees (12.03%) and Rand Merchant Bank (RMB) (6.83%).

Rhodes Food Group Holdings Limited

Rhodes Food Group is a food producer offering prepared meal solutions in fresh, frozen and long life formats to customers throughout South Africa, Sub-Saharan Africa and in major global markets. Rhodes got listed on the JSE main board in 2014. Rhodes has farming operations and production facilities in South Africa and Swaziland. The group's product range includes **canned** fruit, jam, vegetable and meat products, fruit purees and juice concentrates, fresh ready-made meals, pies, pastries and dairy products. The group's growing portfolio of strong brands includes Rhodes, Bull Brand, Magpie, Hazeldene, and Portobello. The shareholders with more than 5% shares are RMB Morgan Stanley (49.09%), Standard Bank Nominees (28.43%).

Sovereign Food Investments Limited (Sovereign Foods)

Sovereign Foods is an integrated poultry producer with its head office situated in the Eastern Cape and produces approximately 125 000 tons of poultry per annum from two production nodes. In Eastern Cape, Uitenhage, the firm has an integrated breeder, hatchery and broiler operation which is supplied by its own feed mill, and an abattoir and cold store producing approximately 100 000 tons of poultry per annum. In Gauteng, Hartbeespoort, Sovereign Foods has an abattoir and cold store producing approximately 25 000 tons of poultry per annum. Shareholders holding a minimum of 5% within Sovereign Foods are Standard Bank Nominees at 32.10%, Ferbros Nominees at 32.03%, **Juspoint** Nominees at 8.47%, Agulhas Nominees at 5.83%, Nedcor Bank Nominees at 5.17%.

Tiger Brands Limited (Tiger Brands)

Tiger Brands is one of the largest manufacturers and marketers of FMCG products in Southern Africa. The firm operates in more than 22 African countries and has 50 manufacturing sites. On-shore manufacturing is located in Cameroon, Ethiopia Kenya Nigeria South Africa Zimbabwe. Tiger Oats and National Milling Company Limited (former name of Tiger Brands Limited) incorporated and listed on the JSE in 1925. The firm is involved in Milling and Baking, Maize milling, Wheat milling, Albany Bakeries, King Foods, Other Grains, Rice, Jungle Oats and Pulses, Consumer Brands, Groceries, Snacks & Treats, Beverages, Value Added Meat Products (VAMP), Out of Home, and Home, Personal Care and Baby (HPCB). The ownership structure, in terms of shareholders with a minimum of 5% shares of the firm is as follows; Public Investment Corporation (PIC) (11.3%), Colonial First State Global Asset Management (7.8%), Tiger and Consumer Brands Ltd (5.4%). Tiger Brands Foundation SPV as a shareholder missed the 5% benchmark by 0.3% as Tiger Brands Foundation SPV held 4.7% shares in 2016.

Tongaat Hulett Limited (Tongaat Hulett)

The Tongaat-Hulett Group (THG) was formed in 1982 when the Tongaat Group Limited merged with Huletts Corporation Limited. Tongaat Hulett is an agri-processing business which includes integrated components of land management, property development, and agriculture. The firm has operations in South Africa, Botswana, Namibia Zimbabwe, Mozambique, and Swaziland. Through its sugar and starch operations, Tongaat Hulett produces a range of refined carbohydrate products from sugarcane and maize, with a number of products being interchangeable. Tongaat Hulett has a primary listing on the JSE since 1952 and a secondary listing on the London Stock Exchange since 1839 but was first started in 1875. Shareholders of the firm holding at least 5% shares are Standard Bank Nominees (34.07%), SMK Genomineerdes (EDMS) BPK (18.58%), First National Nominees (Pty) Ltd (13.40%), Nedcor Bank Nominees Ltd (11.50%) and CMB Nominees (Pty) Ltd (5.06%).

ANNEXURE B: Breakdown of capital expenditure in the food sector (2010-2015)

R Millions		2010	2011	2012	2013	2014	2015
AH-Vest Limited	Replacement	0.25	3.02	0.55	6.55	6.95	9.45
	Additions						
	Acquisitions						
Astral Foods Ltd	Replacement	77.47	86.12	102.1	64.14	125.56	144.74
	Additions	149.11	55.74	100.47	168.04	275.42	43.30
	Acquisitions	2.25	82.26				
AVI Ltd	Replacement	329.8	412.7	541.1	566.9	531.9	848.9
	Additions						
	Acquisitions				417	73.4	
Clover Industries Ltd	Replacement	98.1	197.5	254.31	434.34	374.99	468.11
	Additions						
	Acquisitions			20.792	95.26	200	185.8
Crookes Brothers Ltd	Replacement	55.52	20.44	76.15	78.48	201.97	88.08
	Additions						
	Acquisitions	36.23		60			
Oceana Group Ltd	Replacement	61.62	102.67	69.75	132.91	158.95	160.61
	Additions	30.23	23.32				
	Acquisitions			105	357		4 544.43
Pioneer Foods Group Ltd	Replacement	141.21	201.68	174.05	242.95	216.3	465.5
	Additions	563.83	587.9	536.24	799.91	269.7	186.3
	Acquisitions	144.69	171.18	25.46	315.01		398
Quantum Foods Hldgs Ltd	Replacement						
	Additions				166.02	37.36	58.32
	Acquisitions				315	113	17.5
RCL Foods Limited	Replacement			305.35	298.08	306.49	355
	Additions			56.81	178.92	347.53	402
	Acquisitions			92.5	1 026.23	1 466.77	45.8

Rhodes Food Grp Hldg Ltd	Replacem ent						
	Additions				51.392	87.76	175.89
	Acquisition s				926.12		407.80
Sovereign Food Inv Ltd	Replacem ent						
	Additions	61.52	45.04	22.46	19.84	72.93	53.58
	Acquisition s						120
Tiger Brands Ltd	Replacem ent	634.2	817.8	303	540.3	555.2	677.8
	Additions			177.3	187.3	427.7	203.8
	Acquisition s	474.5	1 690 .5	405	1 545		
Tongaat Hulett Ltd	Replacem ent	280	323	336	477	429	509
	Additions	1 416	396	329	447	117	203
	Acquisition s						

ANNEXURE C: Major investments and acquisitions by firms in the food sector

Firm	Period	Investment
AH-Vest Limited	2013	<ul style="list-style-type: none"> Changed holding companies, from African Heritage Investments (Pty) Ltd to Eastern Trading (Pty) Ltd. Innovated and improved on in-house/no-name brands.
Astral Foods Ltd	2010	<ul style="list-style-type: none"> Astral decided on an exit strategy from its minority (33%) investment in Meaders Feeds Ltd, a feed producer in Mauritius.
	2011	<ul style="list-style-type: none"> Acquired Mountain Valley operation in Kwa-Zulu Natal. (KZN) 10% interest in Ross was acquired from Aviagen for R14.0 million. Integrating the grandparent breeding operations of Elite Breeding Farms and Ross Poultry Breeders.
	2012	<ul style="list-style-type: none"> Astral's 50% interest in East Balt SA, a 50% joint venture with East Balt Inc., an industrial bakery group based in the USA, was concluded. Disposed of half of Astral's 50% interest in NuTec to Cargill.
	2013	<ul style="list-style-type: none"> Made an investment to increase its deboning capacity.
	2014	<ul style="list-style-type: none"> Acquired certain assets following the liquidation of a poultry producer in KZN. Following the closure and liquidation of a poultry business in the Western Cape, Astral acquired the abattoir equipment. Signed a broiler supply agreement with County Fair and Tydstroom (Quantum Foods).
	2015	<ul style="list-style-type: none"> Registered a new company in Ethiopia, Astral Foods East Africa SC. Started supplying Kentucky Fried Chicken (KFC) with chicken wings and breast fillets.
AVI Ltd	2011	<ul style="list-style-type: none"> I&J (part of the AVI group) sold its shares in Alpesca (fresh and frozen fish supplier) to an Argentinian consortium for \$4 million. Entered into an agreement to sell Denny for R263.5 million.

	2013	<ul style="list-style-type: none"> • Clover acquired 100% of AVI's Real Juice Company.
Clover Industries Ltd	2011	<ul style="list-style-type: none"> • Danone Southern Africa agreed to outsource all its merchandising services to Clover.
	2012	<ul style="list-style-type: none"> • Acquisition of the 30% minority shareholding in Clover Botswana. • Acquisition of the 45% minority shareholding in Clover West Africa.
	2013	<ul style="list-style-type: none"> • Acquisition of a 100% shareholding in The Real Juice Co. from AVI Ltd. • Concluded a transaction with Nestle to establish a new beverage company called Clover Waters. • Secured two new principals, Enterprise Foods and Red Bull's top-end sales and merchandising services.
	2014	<ul style="list-style-type: none"> • Acquisition of Dairybelle (Pty) Limited's yoghurt and UHT business for approximately R200 million.
	2015	<ul style="list-style-type: none"> • Acquired Nkunzi MilkyWay (Pty) Ltd, an Ayrshire milk producer.
Crookes Brothers Ltd	2010	<ul style="list-style-type: none"> • Acquisition of a sugar cane farm in the Mazabuka region of Zambia.
	2012	<ul style="list-style-type: none"> • Acquisition of the lease of 3 000 hectares of irrigable land near Gurue in northern Mozambique.
	2014	<ul style="list-style-type: none"> • Acquisition of a fruit farm in High Noon; the farm comprises 200 hectares under orchards with a further 40 hectares available for development.
	2015	<ul style="list-style-type: none"> • Expanded the area under cane at Mthayiza by 320 hectares to 1 100 hectares with the inclusion of an adjacent farm previously leased to TSB Sugar.
Oceana Group Ltd	2010	<ul style="list-style-type: none"> • Joint venture with Premier Fishing.
	2012	<ul style="list-style-type: none"> • Successful acquisition of the Lusitania group (Lusitania is a supplier of frozen, chilled and frozen foods including fish and seafood)
	2013	<ul style="list-style-type: none"> • Acquisition of the fishing interests of Foodcorp (Pty) Limited.
	2015	<ul style="list-style-type: none"> • 100% acquisition of USA-based Daybrook and 25% interest in Westbank Fishing LLC.
Pioneer Foods Group Ltd	2010	<ul style="list-style-type: none"> • Acquired assets and liabilities of Egglund poultry farm for R56.9 million. • Acquired assets and liabilities of Opdiefontein poultry farm for R43.2 million. • Acquired the assets and liabilities of Mynsar poultry farm for R34.9million.
	2012	<ul style="list-style-type: none"> • Additional capacity for carbonated soft drinks was installed in Ceres.
	2013	<ul style="list-style-type: none"> • Acquired assets and liabilities of three farms, namely Lemoenkloof Layer Farm (R44 million), DFC Breeders Farm (R40 million) and DFC Broilers Farm (R77.5 million). • Merged Ceres Beverages and Bokomo Foods.
	2015	<ul style="list-style-type: none"> • Acquisition of a 50% stake in Future Life Health Products (Pty) Ltd. • Acquisition of a 50.1% stake in Food Concepts Pioneer Limited, a bakery business in Nigeria, for \$7 million. • Sold its biscuit manufacturing assets and closed down its biscuit manufacturing related business.

		<ul style="list-style-type: none"> • Disposed of the Group's interest in Maitland Vinegar Works (Pty) Ltd.
Quantum Foods Holdings Ltd	2014	<ul style="list-style-type: none"> • Acquired Safe Eggs, the only producer of pasteurised table eggs in South Africa. • A rental farm was procured to increase the commercial rearing farm capacity by 13% to 6.8 million point-of-lay hens per annum. • Acquired the Olifantskop feed mill.
	2015	<ul style="list-style-type: none"> • Sold its abattoir in Gauteng to Crown Chickens (Pty) Ltd (trading as Sovereign Foods).
RCL Foods Ltd	2011	<ul style="list-style-type: none"> • The Group was restructured into two operating units, namely Rainbow (chicken) and Vector (logistics). • Acquired the poultry processing operations of Bushvalley Chickens.
	2012	<ul style="list-style-type: none"> • Vector increased its storage capacity by approximately 25%. • Vector took over the management of a new 5 200 pallets plant based cold store built by Rainbow.
	2013	<ul style="list-style-type: none"> • Acquired an effective holding of 64.18% in Foodcorp.
	2014	<ul style="list-style-type: none"> • Entered into a joint venture with Senn Foods in Botswana and acquired 49% shareholding. • Acquired a 100% holding in TSB Sugar RSA (Pty) Ltd (TSB).
	2015	<ul style="list-style-type: none"> • Signed a deal to acquire a 33.5% stake in Ugandan poultry producer Hudani Manji Holdings Ltd.
Rhodes Food Group Holding Ltd	2015	<ul style="list-style-type: none"> • The acquisitions of Pacmar fruit juice manufacturer (R165 million), Saint Pie (R26 million), Boland Pulp (R174 million), and Deemster (R25 million). • Two acquisitions of General Mills and Alibaba.
	2016	<ul style="list-style-type: none"> • Additional production sites to be added through the General Mills and Alibaba.
Sovereign Food Investments Ltd	2012	<ul style="list-style-type: none"> • United Chix (Pty) Ltd, sold all of its assets and liabilities to a fellow subsidiary, Crown Chickens (Pty) Ltd.
	2016	<ul style="list-style-type: none"> • Purchased the abattoir at Hartbeespoort from Quantum Foods (Pty) Ltd for R120 million.
Tiger Brands Ltd	2011	<ul style="list-style-type: none"> • Finalised a transaction with the East African Group of Companies of Ethiopia relating to the formation of a new food and HPC company which will operate in the Ethiopian market. • Acquired Deli Foods of Nigeria. • Acquired the entire issued share capital of Davita Trading (Pty) Ltd a South African manufacturer and exporter of powdered seasonings and beverage products with a presence in 28 countries across Africa and the Middle East. • Acquired 49% interest in UAC Foods in Nigeria.
	2012	<ul style="list-style-type: none"> • Spent R218 million on the acquisitions of the Status, Simply Cereal and Spiraforce brands. • Invested R90.1 million in increasing the group's shareholding in Langeberg & Ashton Foods from 66.6% to 100%. • Tiger Brands increased its shareholding in National Foods in Zimbabwe by 11.7% to 37.4% for a purchase consideration of R97 million.
	2013	<ul style="list-style-type: none"> • The group concluded 3 acquisitions of a 63.35% shareholding in Dangote Flour Mills (R1.5 billion) and Mrs Ball's trademark in Nigeria.

	2014	<ul style="list-style-type: none"> • Gums and jellies plant worth R160 million was commissioned in Durban. • Disposed of Dangote Agrosacks Limited.
Tongaat Hulett Ltd	2010	<ul style="list-style-type: none"> • Expansion of the Xinavane sugar mill (Mozambique) was completed increasing its sugar production capacity to over 208 000 tons in a 32 week crushing season.
	2011	<ul style="list-style-type: none"> • Acquired a further 33.3% interest in Sugarmark Namibia (Pty).
	2015	<ul style="list-style-type: none"> • Investment of R120 million in downstream capacity.

Source: Firms' annual reports and SENS reports

ANNEXURE D: Mergers and acquisitions in the sector

Case Number	Primary Acquiring Firm	Primary Target Firm	Size	Status
2010May5134	Country Fair Foods, a division of Astral Operations Limited	Vredebek (Pty) Ltd and Byways Poultry Farm (Pty) Ltd	S	Approved
2010Jun5195	Oceana Brands Limited	Premier Food SA (Pty) Ltd	S	Approved
2010Dec5529	Pioneer Foods (Pty) Ltd	Black Dog Investments (Pty) Ltd, A&A De Castro CC and Skywood Properties 101 (Pty) Ltd	I	Approved
2011Mar5685	Tiger Brands Limited	Davita Trading (Pty) Ltd	L	Approved
2010Jul5242	Rhodes Food Group (Pty) Ltd	The Business Assets of Del Monte Fruits (S.A) (Pty) Ltd and the Immovable Properties of Del Monte (S.A) (Pty) Ltd and Zanthus Investment (Pty) Ltd	I	Approved with conditions
2011Apr0016	Astral Operations Ltd	The abattoir Business Currently Being Operated by Corpclo 2410 (Pty) Ltd	I	Approved with conditions
2011Jun0081	Tiger Consumer Brands Limited and Tiger Food Brands Intellectual Property Holding Company (Pty) Ltd	Unilever plc and Unilever South Africa (Pty) Ltd	I	Approved
2011Nov0375	Rainbow Farms (Pty) Ltd and Vector Logistics (Pty) Ltd	Bushvalley Chickens Partnership and Rodev Chickens (Pty) Ltd	I	Approved
2012Apr0188	Oceana Group Limited	Phambili Fisheries (Pty) Ltd, Bato Star Fishing (Pty) Ltd and entities within the African Marine Products (Pty) Ltd	I	Approved with conditions
2012Apr0187	Oceana Group Limited	V&A Cold Store (Pty) Ltd	S	Approved with conditions
2012Jun0352	Clover SA (Pty) Ltd	Real Juice Co. Holdings (Pty) Ltd	I	Approved with conditions
2012Jun0356	Pioneer Foods (Pty) Ltd	Lohmann Breeding SA (Pty) Ltd and Avichick (Pty) Ltd	I	Approved
2012Jul0370	Pioneer Foods (Pty) Ltd	DFC Breeder Farm (Pty) Ltd and DFC Broiler Farm (Pty) Ltd	I	Approved
2012Nov0653	Pioneer Foods (Pty) Ltd	Amaqanda Farms (Pty) Ltd	S	Approved
2012Dec0721	Tiger Consumer Brands Limited and Tiger Food Brands Intellectual Property	The Mrs H.S. Ball's Chutney Business which is a part of Unilever Plc. and Unilever South Africa (Pty) Ltd	I	Approved

	Holding Company (Pty) Ltd			
2013Jun0304	Rhodes Food Group (Pty) Ltd	KAP Manufacturing (Pty) Ltd	I	Approved
2013Aug0371	Oceana Group Limited	The fishing business of Foodcorp (Pty) Ltd	I	Approved with conditions
020461	Clover S.A. (Pty) Ltd	Nkunzi Milkyway (Pty) Ltd	I	Approved with conditions
2014Nov0682	Premier Group (Pty) Ltd	Mister Bread Milling (Pty) Ltd	I	Approved
2015Feb0043	Rhodes Food Group (Pty) Ltd	Pacmar (Pty) Ltd	I	Approved
2015Apr0174	Rhodes Food Group Proprietary Limited	Boland Pulp Proprietary Limited	I	Approved
2015Apr0205	Pioneer Foods Proprietary Limited	Future Life Health Products Proprietary Limited	L	Approved with conditions
2015Jul0426	Rhodes Food Group Proprietary Limited	The canning and bottling operations of Deemster Proprietary Limited	S	Approved
2015Jul0435	Crown Chickens (Proprietary) Limited t/a Sovereign Foods (Sovereign Foods)	Quantum Foods (Proprietary) Limited in respect of its Processing Facility near Hartebeespoort	I	Approved
2015Nov0647	Quantum Foods Proprietary Limited	Olifantskop Feeds Proprietary Limited	I	Approved

Source: Competition Commission [website](#)

