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6 Mar 2014

PREMIER FOODS (PFD): 145p (TERP 86.5p) FY Numbers, Rights & Restructuring

Group ‘was over-levered’ & will now be able to ‘pursue more effectively its category-based strategy & enhance long-term shareholder value…’

Year to end-Dec*	PBT#^ (£m)	EPS^ (p)	PER (x)	DPS (p)	Yield (%)
2013 (A)	80.5	33.5	4.3(1)	0.0	0.0
2014 (E)	93.0	11.3	7.7(2)	0.0	0.0

Source: Company & Broker Estimates, #pro-forma figures, *year end to change to March post 2015, ^numbers pre-(notional) tax and pre-pension payment, (1) 240m shares in issue, (2)824m shares in issue post Rights, post placing

The Financial Restructuring:

Premier Foods has announced a major financial restructuring alongside its FY numbers. Taking some information as read the proposals and our comments are set out below:

Debt & Equity Restructuring Soon To Be Complete:

1. Equity: Premier Foods will place £100m worth of stock at 130p per share to a lucky few institutions – and staff. This is fully underwritten.
2. Equity: The group will undertake an 8 for 5 Rights Issue at 50p per share. In what must have been an exchange of money for old rope, this is also fully underwritten.
3. Bonds: The group will issue £475m of new bonds.
4. Debt: Announced a new £300m credit facility, maturing in 2019.
5. Pension: The group, which has a £604m deficit (£3.8bn of liabilities and £3.2bn of assets) has announced catch-up payments some £161m cumulatively lower than previously announced over the next six years
6. Summary: 1 through 4 were anticipated, 5 is new news and, in total, this represents a pretty remarkable achievement

Business Restructuring Now Complete:

- The group announced end-Jan that it was to sell 51% of Hovis into a JV controlled by US PE house The Gores Group; this was a headache minimising measure rather than a fund raise

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Market Cap: £63m
12m range 6.5p 15.5p

- The disposal (and earlier, fund-raising sales of Branston & other brands) ‘will allow management to focus its full attention on the Grocery business, which the board believes is well-positioned to deal with the challenges of 2014’
- PF is now focused on ambient branded groceries, which comprise some 85% plus of sales going forward; ‘Power Brands’ comprise Ambrosia, Batchelors, Bisto, Hovis (see above), Loyd Grossman, Mr Kipling, Oxo and Sharwoods
- Other brands include Angel Delight, Atora, Be-Ro, Bird’s, Mothers’ Pride, Home Pride, Paxo, Saxa, Smash and others

The Historic Numbers:

- For what it’s worth, these were ‘in line with estimates’ although the group does also manage to say that PBT, EPS and debt were all ‘better than expectations’
- Debt, pre the restructuring, was down £120m, Grocery Power Brands were up by 2% in 2013 although total grocery sales were down by 2%

Pro Forma Numbers:

- The valuation of the group going forward hinges on this:
 - In particular should the pension payment be included or excluded? Bond yields will, at some point, rise – and Premier could swing into a pension surplus
 - Should valuation be post a nominal tax charge of 23.25% or after?
- We can construct a pro-forma P&L; the numbers below are for a 12m period – though the company will move its year end from December to March
- **Tab.1. Premier Foods, Pro-forma P&L:**

	Reported FY13 (£m)	Company Comment	Pro-forma 12m going forward
Power Brand Sales	543.5	Expect to rise 2% to 3%	558
Other Branded Sales	196.2	Will rise ‘modestly’	199
	739.7		757
Non Branded Sales	110.1	Will decline	100
	849.8		857
EBITDA	156.2	Add back Depn £19m	160
Trading profit	138.9		141
Interest	(58.4)	Suggested by PF	(48)
Pension payment	0.0	Payment schedule per PF	(35)
PBT	80.5		58
Tax (notional 23.25%)	(18.7)		(13.5)
Profit after tax	61.8		44.5
Shares in issue (m)	240m		824m
EPS – pre pension & tax	33.5p		11.3p
EPS – pre pen., post tax	25.8p		8.7p
EPS – post pen., post tax	25.8p		5.4p

Source: Company Reports, Langton estimates:

Valuation:

- Premier Foods is not the company it was earlier in the week. All of the above proposals are contingent upon each other but the changes are very likely to be agreed at the 20 March General Meeting
- Tab.2. Premier Foods, Valuation – ex Rights:**

Suggested Rating	Post Pension	Pre Pension Payment	Pre Pension Nil Tax
10x	54p	87p	113p
12x	65p	104p	135p
14x	76p	122p	158p
Theo. Ex-Rights Price	86p	86p	86p

Source: Langton estimates:

- The above valuations are for the group in its ex-Rights form and should be compared with an ex-Rights price of 86p (equivalent cum-Rights price 145p – correct as of Thursday morning)

Other Considerations:

- Placees are getting stock at 130p
- The Rights, though very, very heavily discounted, are fully-underwritten and there are £63m of fees flying around
- Pulling all of the above off (and the pension info is new news) represents quite a feat
- There is no further pension review until 2020 – and the group could swing into surplus
- The co. points out that 1) it was over-levered and says 2) this restructuring should allow it to concentrate on its business, improve its position with suppliers etc. That seems valid
- The last dividend was paid in 2008; the bonds etc. can restrict payments going forward – as can the pension trustees – but this does not strike us as abnormal
- Importantly the directors, who seem to have landed a lot of stock at 130p, are taking up all of their Rights; ditto the large shareholders Warburg Pincus, Paulson and Cazenove

Langton Comment: A food company will always be a food company but, in the case of Premier Foods, boring is good.

The group has strong (admittedly national rather than global) brands.

It isn't likely to be a takeover target any time soon – but never say never.

A lowly 12x pre-pension, pre-tax multiple takes the shares in their new form to 135p. This implies some 271p in the group's cum-rights form.

We can bandy numbers around until the cows come home but an even more humble 10x pre-pension pre-tax rating implies 113p (or 214p in the cum-rights form).

Overall, a cum-Rights target of 200p plus does not look unreasonable. Remember when buying stock that you are going to be asked to supply a further 50p on an eight for five basis post 20 March.

When in doubt, follow the directors (who are putting money in) and the inside-shareholders, who are also committing more cash.

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