Premier Foods – a personal view

by Eric Chalker

I first bought shares in Premier Foods in March 2006, on the back of an expansion programme which looked unstoppable. Unfortunately – or perhaps with hindsight predictably - this culminated in one acquisition too many (Rank Hovis McDougall) and the company found itself saddled with an unserviceable debt. The consequence, as the banking crisis unfolded, was disaster and for many years the company struggled to survive.

My shares drowned, of course, as did others during that time, but I held onto them in the belief that this company's business was too good to disappear. David Beever, who joined the board in 2008 and became chairman in 2012, must have thought so too. I followed the board's efforts to rescue the company from its creditors and twice bought more, but the shares continued to sink and could at one point be had for less than 30p. A new CEO, Gavin Darby, was appointed in 2013, established a new growth strategy and at the end of his third year was able to report a return to profit and growth.

In May 2016, with the share price still languishing well below the 50p of the last rights issue, the board rejected a takeover approach with a tentative offer of 65p. In the face of some criticism, the board saw off the predator, believing that its own growth plans would deliver better value for shareholders. I went to this year's AGM, in July, to see if the directors were able to justify their position and came away sufficiently satisfied to persuade me to increase my holding significantly. This was at 47p, a quarter more than the price at which, last May, The Daily Telegraph's Questor said sell.

It is now my fourth biggest shareholding by sum invested. If the price doubles, which I would not be surprised to see happen in the next 12-24 months (it is up 12 per cent since the AGM), I will recover all my earlier investment in Premier Foods and make a substantial profit on this year's purchase. Beyond that, I would expect to begin enjoying a growing dividend.

The company still has two significant balance sheet problems: debt and pension fund deficits. It is company policy to continue reducing the debt (ahead of resuming dividends) and the AGM was told that the board is actively facing up to the pension #situation. But what makes the company attractive to me is its growth strategy, based on continuous innovation, expansion overseas and heavy emphasis on marketing. At present, only 5 per cent of its business is abroad, but with the assistance of its Japanese partner Nissin (also its largest shareholder) and the appointment of a managing director for international sales, this is set to grow substantially.

The company's business is the marketing of its brands, most notably Bisto, OXO, Loyd Grossman, Sharwood's, Mr Kipling, Cadbury cake, Ambrosia and Batchelors. The majority of its sales are through the major supermarkets, where by last March it had been battling more than 20 consecutive months of price deflation but, despite this, Premier's sales by value still grew. As it develops more products, it sees other outlets in the UK, as well as abroad. First quarter sales growth this year, announced at the AGM, was 1.9 per cent, which suggests that the CEO's full year target of 2-4% (up from an original 1-2%) may be conservative.

I have never attended a better AGM. It lasted a full 90 minutes, including highly informative addresses by the chairman and CEO, followed by a series of intelligent questions and observations by long term investors. It was as AGMs should be, a full and open exchange between investors and managers, with the latter clearly respecting their audience and not seeking in any way to dismiss or brush aside those concerns that were expressed. If only all AGMs were like that.

At the end of the meeting, I asked the chairman whether he would consider a visit by UKSA members. He said yes, to be arranged through Richard Godden, Head of Investor Relations. This would be well worthwhile, I believe, if someone were prepared to organise it.

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