

# Premier Foods

**Consumer**
**25 June 2020**

## Innovation continues to drive growth

Premier Foods' FY20 results demonstrate the substantial progress the company has made over the past few years. The UK business has now grown for 11 consecutive quarters and Q121 is set to be very strong. In the UK the brands grew ahead of their categories and the innovation rate has hit a new high. A new landmark pensions agreement was signed in April, which could potentially significantly reduce the future funding requirements for Premier Foods. The recent triennial actuarial valuation delivers further credence to the pensions deal.

### Encouraging results

Group revenues were up 2.8% with an acceleration in Q4 (+3.6%). Trading profit was up 3.2% to £132.6m and adjusted PBT was up 6% to £93.3m. Net debt was down to £408.1m on a pre IFRS 16 basis, with net debt/EBITDA of 2.7x, which beat the March 2020 target of 3.0x. The combined pensions surplus is now £1230m.

### Positive outlook

The outlook is positive: revenues in Q121 are expected to be c 20% ahead of the prior year, reflecting strong demand. The group now expects to exceed current market expectations for FY21 despite incurring additional operating costs in the supply chain. In addition, the cost-savings programme is now expected to exceed initial target savings.

### Valuation: High debt levels contribute to discount

Premier Foods trades on 6.2x FY21 consensus earnings, which is a significant discount to its global and UK food manufacturing peer group and is due to its much higher level of debt than its peers. The UK mid-cap peer group trades on an average FY21 P/E of 15.1x, while the global peers trade on 19.5x FY21 P/E. On EV/EBITDA it trades at 5.7x FY21, which is still at a discount to its peers (8.7x and 13.6x respectively). The company has suffered high levels of indebtedness for over a decade, but the focus on sales growth and innovation over the last few years has paid off. The level of debt is still relatively high, but as the pension deficit and leverage reduce, there should be more free cash flow and hence the board may consider restarting dividend payments in future.

**Price** 59.6p  
**Market cap** £506m

#### Share price graph



#### Share details

Code PFD  
Listing LSE  
Shares in issue 848.6m

#### Business description

Premier Foods operates primarily in the ambient food sector. The Grocery division operates in four main segments: flavourings & seasonings, cooking sauces & accompaniments, quick meals, snacks & soups, and ambient desserts. The Sweet Treats division comprises ambient cakes.

#### Bull

- FY21 has started well, with Q1 revenues expected to be c 20% ahead of the prior year.
- Innovation continues to drive growth and should help to expand margins.
- Landmark pensions agreement means the board may consider restarting dividend payments in future.

#### Bear

- Net debt/EBITDA has made major progress but remained relatively high at 2.7x at end FY20.
- Brexit still poses uncertainty and may cause disruption.
- Non-branded products help to support the business but causes a drag on sales growth.

#### Analysts

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#### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/19	824.3	88.0	8.5	0.0	7.0	0.0
03/20	847.1	93.3	8.9	0.0	6.7	0.0
03/21e	890.6	103.6	10.0	0.0	6.2	0.0
03/22e	903.0	112.6	10.8	0.0	6.0	0.0

Source: Refinitiv

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