

Rainbow Chicken raises R3,9bn

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Rainbow Chicken successfully raised R3.9bn through a rights issue, the company said on Monday, 4 March 2013.



Rainbow, which is SA's largest processor and marketer of chicken will use the money to fund strategic growth, which included its 64.2% purchase of Foodcorp for R1.037bn.

Its 49% purchase of Zam Chick from Zambian agricultural company Zambeef for US\$14.25m, will also be partly funded from the rights offer.

Rising commodity prices, inflation and surging chicken imports have put pressure on local poultry companies to diversify and Rainbow has been looking for branded opportunities outside of SA's poultry market.

In a note to clients last week, Vunani Securities analyst Anthony Clark said Rainbow some years ago judiciously started its move to lessen its revenue from the commodity (individually quick-frozen) side of the chicken business towards servicing quick service restaurants and developing its own retail value-added brands.

"Rainbow is now ahead of the curve compared with its competition. The recent R3.9bn rights issue saw Rainbow acquire a 64% stake in Foodcorp and brings it a R7bn grocery business with many number one or two categories of products.

"The further acquisition of a 49% stake in Zamchick enables Rainbow to move into Zambia and the neighbouring, under-served territories; moves into Nigeria and Kenya via ZamChick can be expected," Clark said.

Rainbow offered 276,964,802 new shares, allowing shareholders to buy 80 shares for every 100 they own at an issued price of R14.20.

The rights offer was fully underwritten by Remgro, which owns 73.4% of Rainbow.

"With cash on its balance sheet, Rainbow can no longer be seen as a poultry stock and thus risk is mitigated in its ownership.

"Management stated they intended to bed down the R1.2bn spent on Foodcorp and ZamChick, and then use their cash to

restructure some of Foodcorp's onerous European debt and 'aggressively grow' Zamchick.

"Even after this, between R1bn and R1.5bn in cash would be available for further acquisitions. A more aggressive, expansionary tone appears to be underway," Clark said.

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