

Cherkizovo Says Prices To Grow 10% to 15%

By [The Moscow Times](#)

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Russia's biggest meat producer Cherkizovo said Tuesday that it expected to hike prices 10 to 15 percent by year end and saw the worst drought in decades as an opportunity to cheaply snap up hard-hit smaller rivals.

The drought has killed about a third of Russia's harvest this year, pushing up prices across the board — including for animal feed. Cherkizovo said it hoped to pass this on to consumers.

"The rise of meat prices this year is unavoidable. We hope that the situation will be limited to 10 to 15 percent ... by the end of the year," Cherkizovo's chief executive officer Sergei Mikhailov said.

"Probably some less effective producers will lose their positions," he added.

As long as feed grain prices stay near their current levels, Cherkizovo is not planning to slash

its expectations of about 5 percent earnings before interest, tax, depreciation and amortization margin in the meat-processing division, 20 to 22 percent on poultry and about 40 percent on pork.

"This year we will more or less fulfill our set aims," he said.

"For next year, it is hard to forecast now because it is not clear how far grain will rise. If it stabilizes ... then I think it will be fine for life. If there is a more serious rise, then there will be a question," he said.

Cherkizovo on Tuesday also reported a 42 percent rise in first-half net profit to \$71.4 million, gaining from higher capacity at its pig and chicken farms.

First-half revenue came in 26 percent higher at \$580 million, while net debt decreased to \$387 million.

Mikhailov praised the government's moves to stabilize prices — including by imposing a grain export ban — and said he would expect more measures to prevent a large-scale livestock cull in case feed prices keep rising.

The company is looking into the possibility of using different grains as feed and may consider importing, but the drought has not changed its broad strategy — or its appetite for acquisitions.

"We are looking at poultry and pork. We think that to a certain extent, today's situation may help toward doing more M&As," Mikhailov said. "It may be one of the best periods for the possibility to negotiate more."

Cherkizovo would be willing to increase its EBITDA leverage to 3 from 2 if the right deal comes along and would consider the issuance of debt — including eurobonds — or a share swap.

"If needed there is a capacity to borrow fairly significant sums. It depends on the targets. ... We are talking about hundreds of millions [of dollars]. For now, money does not limit us," Mikhailov said.

He did not exclude a deal this year but declined to give details of who Cherkizovo — which wants to more than double its market share over the next three to five years to at least 20 percent — is in talks with or would be interested in.

Cherkizovo has not been approached by would-be foreign investors and itself remains very much focused on Russia.

"We are focusing on the Russian market. It is still so fragmented, the potential is still so big that it is unjustified to take on extra costs in some other market when the best market is under our feet," Mikhailov said.

He forecast that Russia could become self-sufficient in pork and poultry — reducing the need for mass imports from countries including the United States — ahead of the government's 2012-13 target.

Within Russia, however, the company is looking at new opportunities, like so-far relatively unpopular turkeys.

"We think that there are no large, quality operators there [in the turkey market]. It would be easier to start from scratch. If we do go in, it will be greenfields and on a fairly large scale," Mikhailov said.

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