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Investor cries foul at Sovereign Food Investments executive bonuses

BY MARC HASENFUSS, SEPTEMBER 09 2015, 07:14

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A TOP fund manager has slammed the board of directors at Eastern Cape-based poultry producer Sovereign Food Investments for not exercising their fiduciary responsibility to act in the best interests of shareholders.

In a letter seen by Business Day, Aeon Asset Management chief investment officer Asief Mohamed argued that by significantly lowering a performance threshold, the company's executive management was able to earn bonuses and additional share option allocations for the 2015 financial year at a cost to shareholders.

This matter was debated last month at a stormy Sovereign annual general meeting in Uitenhage where several asset managers and investors — including Mr Mohamed and Opportune Investments CEO Chris Logan — expressed outrage at the bonus payments to executives. Mr Mohamed, who represents a 4% holding in Sovereign, contended that the company's bonus and share option costs of R51m were disproportionately large, amounting to 32% of profits before tax.

Year-on-year "staff costs" increased 23% to R293m in the year to end February 2015.

Most of this "staff cost" increase came from performance incentives of R42m (up almost fivefold), of which 85% went to the top six executives.

Sovereign's profit before tax was about R160m in the year to end February, but this figure was reduced to R108m after bonus awards and share option costs.

Mr Mohamed said the bonus and share option costs were made despite Sovereign management not achieving most of the economic targets set out by the board in the February 2015 annual report and in prior years. Sovereign chairman Charles Davies has previously indicated the need for incentives to retain the services of top executives and senior management.

But Mr Mohamed suggested Sovereign was fortunate to benefit from rising chicken prices in the past financial year.

"Chicken price increases were as a direct result of the imposition of import tariffs after extensive lobbying by the SA Poultry Association. Maybe most of the bonus award and share option cost should be given to the Department of Trade and Industry for the role it played in the tariff implementation. Other than achieving the gross gearing target of less than 30%, the company has not achieved any of the economic targets for the last six financial years."

Mr Mohamed said the short-term incentive was changed without informing shareholders as required by JSE listing requirements.

Up until February 2014, Sovereign based its incentive structure on achieving return on equity and return on net assets goals. But this was recently changed to an earnings before interest and tax margin comparison basis.

"If this had not changed, there would not have been any short-term incentives payable."

Mr Mohamed also believed the earnings before interest and tax margin comparison to February 2015 for Sovereign with larger rival Astral's margin up until September 2014 was also not correct.

"This comparison unfairly favours Sovereign because the period up until February 2015 reflected higher chicken prices and volumes and Astral Food's period up until September 2014 reflected the lower chicken prices and lower volumes."

Mr Mohamed said the bonus criteria were made easier and thresholds lowered for management relative to those reflected in the February 2014 annual report. "One cannot retrospectively lower economic targets."

Mr Mohamed was concerned the Sovereign board had argued that the executive management bonus covered the previous four years when directors did not receive bonuses.

"As shareholders on behalf of our clients, we are concerned that the board of directors used such an illogical argument which also has no merit."

Sovereign company secretary Max Hoppe confirmed the firm had received the letter, and that the board would most likely respond to Mr Mohamed.