

# NEWS ANALYSIS: Chesa Nyama owner listing short of gravy

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It feels as if the listing of Gold Brands Investments, the owner of the Chesa Nyama fast-food franchise, on the JSE's AltX market has been on the boil for some time.



Photographer: Michael Ettershank

Image source: [BDive](#)

That's not to say the effort has been overcooked — but the listing was initially mooted in November and did not seem to get the market salivating.

Although the local fast food and restaurant sector is still fragmented, the value proposition is largely dominated by large listed players like Famous Brands — which holds a host of brands — and Spur Corporation as well as major global names such as McDonald's and KFC. Whether Gold Brands has cornered a viable niche will not be apparent immediately — but some thought might be given to whether any parties were interested in any of its brands before the listing.

It is worth recalling that some small fast food/restaurant businesses have left a lingering bitter taste on the JSE, with unpalatable returns from businesses including Kingco, Terexko and O'Hagan's.

But Gold Brands has seemingly found a crucial ingredient for its corporate recipe with empowerment investor Circle Food Group and private investors tossing flavoursome funding into the pot.

By inference, Gold Brands holds a pre-listing market value of R110m — a mere morsel compared with sector stalwarts Famous Brands (R11.6bn), Spur (R3.1bn) or even Taste Holdings (R970m).

Gold Brands is mainly premised on about 300 Chesa Nyama stores aimed at the emerging market. These are complemented by a sprinkling of Black Steer, Wild Wings and 1+1 Pizza outlets.

The pre-listing document does not provide a brand break-down, but it seems safe to assume the bulk of the top line is driven by Chesa Nyama.

While the sheer number of outlets might suggest a vibrant brand, it would have been useful to investors to have information on Chesa Nyama store openings and store closures.

The net opening figure may have provided some reassurance of operational traction in a tough segment of the market. Recent poor performances from Spur's Captain DoRegos brand — which is pitched at lower living standards measure bands — confirms that fast food outlets are highly competitive in bringing R15-R30 meals to market. Late last year Taste reported that same-store sales in The Fish & Chip Co (a business, incidentally, co-founded by one of the prime movers of Gold Brands) were down 20% in the half-year to August.

One industry source has described the lower end of the fast food market as "an implosion waiting to happen". With this comment in mind, it is critical to understand the margin achieved by Gold Brands in the recent past.

The pre-listing statement shows an earnings before interest, tax, depreciation and amortisation (ebitda) margin of 5.5% in the 12 months to end-February 2015. The pro forma interim margin to end-August 2015 was 4.1% with the forecast margin for the full year to end-February 2016 predicted at about 5.6%. That is ultra-lean compared with the fat ebitda margins of Famous Brands and Spur.

No new capital is being raised at listing, but a warm reception from the market may allow Gold Brands to later mobilise its scrip to fund acquisitions and expansion.

There is a suggested fundamental underpin in that earnings of about 8c per share are pencilled in for the year to end-February, putting the share on a reasonable forward multiple of 12.5 times.

But the Financial Mail imagines punters will politely decline servings of Gold Brands — which is 82% controlled by three shareholders.

The operational menu is underwhelming, and indicative cash flows are not meaty enough to allow Gold Brands to swallow sizeable acquisitions.

The JSE already has two fledgling fast food plays — Grand Parade Investments (which is rolling out Burger King and Dunkin' Donuts) and Taste (Dominos and Starbucks) catering for the more excitable retail investors.

Small cap listings are difficult to predict, but gut feeling suggests there might not be a strong craving for Gold Brands on listing on Friday.

**Source:** Business Day

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