Consumer spending on fast food increases

By Annaleigh Vallie

2 Oct 2012

Consumers may not be as cash-strapped as analysts predicted if trading updates from two fast-food operators yesterday, 1 October, are anything to go by. Plagued by rising fuel and electricity costs, many analysts had predicted that consumer spending would slow.

But, on Monday restaurant franchise group Famous Brands said basic and headline earnings per share would be between 147c and 152c per share for the six months ended August - an improvement on the prior year of between 18% and 22%.

While smaller rival Taste Holdings said it expected to report growth of between 40% and 55% for both earnings per share and headline earnings per share when compared to the results for the six months ended August last year.

Taste's trading update sent its share price up as much as 12.59% to an intraday high of R3.04 before it closed 11% higher at R3.

Byron Lotter, Vestact analyst said more and more people were able to afford the "small luxury of fast food".

"The dynamics of the family set up also supports this model. As more women enter the jobs market you will find that demand for quick easy food will increase."

Lotter said Taste's recent acquisition of the Fish & Chip Co had been earnings enhancing.

Taste is a management group invested in a portfolio of mostly franchised quick-service restaurant and retail brands that include Scooters Pizza, St Elmo's, Maxi's and jeweller NWJ.

Over the past year or so the shares of Taste have risen by 202% and many analysts have attributed this rise to the purchase of the Fish & Chip Co.

Taste Holdings paid R45m for 202 Fish & Chip Co outlets, and officially took over the business in February from the seller, Praxia Nathanael. And although the seller has cancelled the agreement and issued a summons in this regard, Taste has said the Fish & Chip Co has already been fully integrated into its operations and it had no intention of handing the business back.

Famous Brands is expected to release its results for the six months ended August on October 22, while Taste Holdings says it will release its interim results in the week beginning October 15.

Competitor Spur Corporation has also had a good run and last month reported a 31% increase in diluted headline earnings per share to R1.28 for the year to June. Franchise revenue in the Spur chains rose 13.5% to R155.4m. CEO Pierre van Tonder attributed the company's success to the introduction of its breakfast offering as well as its loyalty card.

Van Tonder said the tough economic climate required innovation. "Consumers are cash-strapped, so you have to give them value and quality propositions if you want them to come into your restaurants," he said.