Investments help Famous Brands grow

By Colleen Goko

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While Famous Brands' insatiable hunger for acquisitions has pushed revenue higher, its investment into logistics and manufacturing operations have been the major reason behind the company's 15 consecutive years of record results.

Famous Brands CEO Kevin Hedderwick.

Image credit: BDlive

In the year to end-February, the manufacturing division increased revenue 43% to R1.8bn, while operating profit jumped 43% to R247m, compared with the year-earlier period. The operating margin remained at 13.7%.

Vunani Securities small and mid-cap equity analyst Anthony Clark said on Monday the growth in manufacturing revenue and profit continued to power earnings for the largest franchisor on the JSE.

Just last week, Famous Brands announced it was acquiring French fries supplier Lamberts Bay Foods from Oceana for an undisclosed amount. Lamberts Bay Foods is one of only three local French fries manufacturers.

Famous Brands group strategic adviser Kevin Hedderwick said acquiring the manufacturer had been "a major coup" in advancing the group’s goal to build capability and capacity across its logistics and manufacturing supply chain operations.

"More goods and services are made internally to trap margin. The addition of more brands just expands this push.

"But much in these results was acquisitive top-line growth, and the move they did into central kitchens, procurement, supply chain logistics — to manage their margin — has a lot to do with this growth," Clark said.

Other acquisitions in the past month alone include the 51% stake in Mexican concept restaurant Salsa Mexican Grill, and the purchase of a 51% interest in KwaZulu-Natal-based Italian concept restaurant Lupa Osteria. A total of 184 new restaurants were opened across the brand portfolio, bringing the restaurant network to 2,614, the company said.

The local restaurant environment has become extremely competitive with the added pressure of an ailing economy. Disposable income has decreased, while the number of eateries to spend it at has increased. Famous Brands services a range of living standards measures (LSM) groups. At one end, there is the quick service brands, such as Debonairs Pizza, Steers, and Fishaways. At the upper end, there are brands such as Tashas, Mythos and Mugg & Bean.

Clark said consumers in the lower to mid-end of the company’s brands were taking strain, while those in higher LSM categories were proving to be resilient. The diversified portfolio of eating brand offerings was helping growth, he said.

Other JSE-listed players in the franchise business are not doing as well as Famous Brands. Data from Iress show that in the past year, Famous Brands’ share price has increased 5%.

In the same time frame, Taste’s share price has declined 28%, while Spur Corporation has decreased 20%.

Famous Brands reported a 31% rise in full-year group revenue to R4.3bn. Operating profit rose 18% to R702m, while the operating margin was 18.4%. Headline earnings per share were up 16% to 541c. The group declared a final gross dividend of 215c per share, bringing the total cash dividend to 405c for the 2016 financial year.

Hedderwick said the "stellar results" were evidence of how the business continued to flourish despite the adverse climate.

"Famous Brands will continue to pursue further upstream manufacturing prospects and explore opportunities to grow the group’s presence in the casual evening dining trade segment, as well as outside of the traditional food service sector. The board is satisfied that the platform for continued growth is firmly in place."

At the close of the JSE on Monday, the Famous Brands share price was up 3.8% to R121.45, valuing the company at about R11.7bn.

Source: Business Day