Spur's Captain DoRegos acquisition called into question

By Shaun Harris

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Spur Corp, among SA's top series of food outlets and one with a growing international presence, has been on quite an acquisition spree recently.

Pierre van Tonder

Picture: Hetty Zantman/Financial Mail

In general, this should grow the Spur group in the franchise market and increase its exposure to a broader sector of the population. But not all acquisitions are considered good.

One that has been called into question is the purchase of the Captain DoRegos chain.

Alec Abraham, an analyst at Sasfin Securities, says while the acquisition was probably motivated by Spur wanting to grow in the takeaway segment, which has been outpacing casual dining, the acquisition gives Spur exposure to lower-income population groups - "a notoriously difficult area to trade in, with a generally higher turnover rate of franchise stores".

Abraham adds this has been compounded by Spur having no experience in the takeaway industry. "The group has struggled with this business and we doubt whether this was as good a move as the [other] more recent acquisitions."

Spur's interim financial results to December show it is struggling with Captain DoRegos. Sales from the franchise chain, representing 24% of group restaurant turnover of R3,2bn, declined by 18.2%.

In commentary Spur said this was because "lower-income consumers remain cashstrapped". It also said six redundant Captain DoRegos outlets had been closed.

Spur CE Pierre van Tonder says he does not think buying Captain DoRegos was a mistake.

"The timing was unfortunate in that the economic slowdown, particularly in that part of our economy, has negatively affected the profitability of a number of franchisees.

"Having said that, we have made great strides in putting the brand on an even platform with regards to distribution, marketing, product mix and franchisee profitability. We believe we are now in a good position from which to grow the brand as has been borne out by the nine new stores already opened this financial year."

Abraham is more complimentary about the acquisitions of The Hussar Grill and RocoMamas.

"These acquisitions appear to contribute more meaningfully to Spur's market positioning. RocoMamas extends the group's exposure to a younger, trendier and potentially less-price-sensitive market and The Hussar Grill to an also less-price-sensitive and generally more resilient, upmarket population grouping. Whether these chains live up to our expectations will become clear only in the medium term, as their store numbers grow."

Looking ahead, Van Tonder sees many benefits for Spur from the new acquisitions.

"It gives us the opportunity to sell franchises to a broader part of the market, who in the normal course of business do not have the opportunity to raise the finance that would be required for our other brands. For example a Spur today will cost you R6m. The set-up costs of Captain DoRegos and RocoMamas are significantly less."

Using a dividend discount model, Abraham estimates a fair value for the Spur share at R37.99 (current price R33.50). "Discounting to one year out implies a one-year target price of R40.61," he says.

His recommendation is: "Recent developments certainly add to Spur's strategic profile, but much work remains on fixing the group's international operations and Captain DoRegos, and rolling out The Hussar Grill and RocoMamas chains."

That probably makes the share worth buying, given also that store growth through acquisitions should translate to higher growth inearnings.

Spur's share price has gained 14.6% over the past year. The p:e ratio is very demanding at 24.9 times but the dividend yield is an attractive 3.8%. Spur's most recent dividend payment, of 62c/share, was made near the end of February, being 8.8% higher than the previous dividend. Good and steady dividend payments are why investors buy shares.

Source: Financial Mail via I-Net Bridge