

# Imperial sees opportunity in adverse market

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Imperial Holdings CEO Hubert Brody says the distressed market presents acquisition opportunities for the group, but notes that it is hard to value businesses because earnings visibility is low.

He said on Friday, 17 July 2009, the transport and logistics group would consider growth opportunities overseas where these could be placed under the ambit of its European subsidiary in Duisberg, Germany.

Brody, who has been at the helm since 2007, said any overseas opportunity had to be related to the group's key logistics and freight focus there.

This implied that Imperial was unlikely to enter new international markets as it tried to put the group on a growth path following a drastic restructuring.

Brody said organic growth was always the best way of expanding the business in that it tapped the company's resources. But he acknowledged the importance of acquisitions that carried integration risks.

He said the company emphasised growth in areas of the industry that were not cyclical and were more defensive.

The logistics unit was defensive as opposed to dealership, distributorship, tourism and car rental, all of which were cyclical.

After major restructuring last year, Imperial was left prone to cyclical businesses — which perform well when the economy strengthens and sag when it slows.

More than half of its revenue comes from dealerships and distributorships, which have been battered by the economic downturn.

Deteriorating trading conditions still pose a challenge to Imperial, whose prominence in the motor retail business increases the potential volatility in earnings and its exposure to the economic cycles.

Moody's has warned recently that deteriorating economic conditions could put strain on Imperial Holdings, posing a threat to the group's future ratings.

The rating agency said in April it was concerned that Imperial was generally not generating free cash flow to reduce leverage.

Brody said Imperial acted decisively and quickly to dispose of businesses that were not part of its “roots”. These took place last year, just before the onset of the global financial crisis, which would have made asset sales difficult.

Super Group, Imperial's rival, is only now trying to dispose of noncore assets at a time when the economic crisis has intensified.

Notably, Imperial sold Tourvest, pocketing about R1bn, and offloaded its aviation division for R852m. It also unbundled the leasing and capital equipment group Eqstra, which is battling with worsening trading conditions, declining earnings and high debt levels.

“We are back to our roots,” Brody said of the remaining three divisions, noting that “we focus on businesses we understand well”.

He said the company sought to remain cash generative, with profits growing faster than invested capital.

Much of the group's emphasis was on creating value for its shareholders.

“Discriminate against businesses that are not cash-generative,” Brody said.

*Source: Business Day*

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