Distell to swell its African business

By Marc Hasenfuss

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Liquor brands conglomerate Distell (DST), which has investment house Remgro and beer giant SABMiller as major shareholders, will strongly fortify its African business in the medium term.

Richard Rushton

Speaking after the release of interim results on Monday, CEO Richard Rushton said Distell expected to at least double its African business within five years. African business accounted for 55% of Distell's international revenue of R3bn in the half-year to end-December.

Angola is providing a sweet spot for Distell, though Rushton warned the weaker oil price could slow growth in the short term.

While reluctant to be drawn on an exact number, Rushton said Distell could invest between R500m to R1bn in capital programmes in various African markets in the next five years. "That would exclude investment in brands and people... I don't want to put a specific number on it at this point, but we are following the growth in Africa."

African growth is critical for Distell, which is achieving a spirited operating margin of 23% to 26% in Africa. "An operating margin of 20% to 26% would be very pleasing to us."

International underperforms

Distell's international business - despite the weaker rand exchange rate - underperformed its SA business. Operating profit from international operations dipped 2.6% to R561m, mainly stemming from tough trading in wine in the economically hung-over eurozone.

Distell's SA business, which still accounts for 70% of revenue, enjoyed a 13% growth in revenue to R7.9bn and a 30% jump in operating profits to over R1.4bn.

Rushton said certain efficiencies were brought to book in the interim period and that spending on marketing and promotional activity in the previous trading period had also paid off.

Bottom-line earnings fell 13.4% to 456c per share, but this number included an inflated corporate costs line (including provisions for performance bonuses) and last year's profits were boosted by a R160m "remeasurement of the contingent purchase consideration" relating to the 2013 acquisition of scotch maker Burn Stewart Distillers.

Refreshing corporate strategy

Rushton also said the company was investing heavily to support its refreshed corporate strategy. He said these strategic investments saw operating profit margin decline marginally from 13.8% to 13.4%, while net finance costs increased from R110m to R127m.

Rushton said the robust local sales volumes reflected strong growth in the wine portfolio as well as satisfactory growth in the key cider and ready-to-drink brands.

He said growth in the cider operations was at a slower pace than in previous years. Distell's cider business - built around Hunters and Savanna - dominated the local market and was ranked as the second-largest cider business in the world.

Opportune Investments CEO Chris Logan said Distell's operating performance was commendable considering the pressure local consumers were under. He said that though the slowdown in growth in Distell's cider brands (mainly Hunters Dry and Savanna) was to be expected, it was encouraging to see that Africa was clearly a growth story.

"I would really love to see Distell doing an international deal that would take their cider brands beyond Africa."

Asked whether Distell would welcome closer co-operation on the cider side with major shareholder SABMiller, Rushton said the two companies were enjoying a joint production arrangement in Zimbabwe. "Any opportunities to sharpen up our business will be looked at."

Source: BDpro via I-Net Bridge