AVI targets African sales with better distribution

By Nick Hedley

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Branded consumer products group AVI is targeting a good year for grocery and personal care sales in African countries, after improving its distribution channels in several export markets.

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AVI's Entyce, Snackworks and Indigo businesses grew their global revenue by 20% to R769m in the year ended June, though investments in new markets saw operating profit from this business rise only 2.3% to R132m.

CEO Simon Crutchley said yesterday, 8 September 2014, AVI had strengthened its distribution for these divisions in mainly East and Southern African markets, including in Namibia, Botswana, Mozambique, Zambia and Angola.

Brand acquisition opportunities

He also said the group was looking for brand acquisition opportunities in SA and elsewhere, "but with a keen eye on the quality of the intellectual property" - which gave brands their competitive advantage.

AVI yesterday reported a 14.9% rise in headline earnings from continuing operations to R1.2bn for the year ended June, with revenue from continuing operations up 11.4% at R10.3bn.

The group's total dividend for the year, at 300c per share, was 15% better than previously.

The biggest divisional contributor to AVI's rise in profitability was fishing subsidiary I&J, which grew operating profit by 47.5% to R244.6m as the weak rand aided its export revenue.

However, the weaker rand resulted in input cost pressure and margin contraction in some of AVI's other businesses.

"A natural hedge"

Greg Cort, analyst at Old Mutual Investment Group's Electus, said AVI had "a natural hedge": its fishing business benefited from a weak rand but footwear and apparel felt margin pressure when the rand deteriorated.

AVI's core products of beverages and snacks "recorded good volume growth" and had seemingly gained market share from rand-sensitive imported products. Snackworks grew operating profit 22.3% to R474.5m.

Cort said I&J was the standout division thanks to the weak rand and an improved catch, while the fashion business reflected a consumer slowdown and further gross margin pressure.

AVI's fashion brands business, which consists of personal care and footwear and apparel products, contributed R560m towards operating profit - down from R577m previously.

AVI said in its results that it expected the constrained consumer demand environment to persist "and possibly worsen given rising interest rates and a pullback in unsecured lending.

"The pressure on profit margins from the weaker rand will be ameliorated by selling price increases taken across the group during the fourth quarter of the last financial year. However, any further rand weakness will increase margin pressure."

Source: Business Day