Distell plans to curb Angolan expansion

By Marc Hasenfuss

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Liquor brands conglomerate Distell reported strong growth in Southern African markets, but the economic hangover from a lower oil price has drastically curtailed expansion plans in Angola.

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Speaking after the release of well-fortified interim numbers on Wednesday, Distell CEO Richard Rushton said double-digit growth for the company's cider, wine and spirits brands in most Southern African markets had been diluted by challenging trading conditions in Angola.

He said business had dropped considerably in Angola in the six months to December. Angola, which has recently faced economic challenges as the crude oil price slipped to close to $30 per barrel, accounted for 50% of Distell's African business in the year to end-June 2015.

Rushton said consequently Distell had decided to scale back plans for a $40m greenfields production plant for spirits and RTDs (ready-to-drinks). The firm would now follow a "more modular" approach to expansion in Angola.

"We planned to build a plant with a production capacity of 400,000 hectolitres with sufficient capacity for five years. Now we will track this back to a 100,000-hectolitre plant with capacity for 18 months, and use the proceeds to reinvest back into the plant. It's essentially a 'pay-as-you-go model'."

Lentus Asset management chief investment officer Nic Norman-Smith said the Distell interims confirmed that the rest of Africa was now proving a "tougher growth story" for South African companies.

The rest of Africa, though, remains a key focus for Distell, which generated about 25% of its R12.2bn interim sales outside SA. The rest of Africa represented about 55% of the total international business.

Rushton said participation on the continent was part of Distell's long-term goal to increase competitiveness in delivering sustainable revenue and profit growth.

International sales revenue crept up to R3.16bn, but operating profits fell from R561m last year to R498m.

Interestingly, SA was the star performer for Distell — whose well-known brands include Fleur du Cap, Klipdrift, Zonnebloem, Nederburg and Amarula.

Local revenue was up almost 15% on volume growth of about 13%. Mr Rushton said the South African performance was driven by enhanced market penetration as well as improvements in product mix and customer service.

The wine segment continued to recover — spurred by a strong performance from 4th Street, which Mr Rushton reckoned was "now by far the country's biggest-selling wine brand".

He said the spirits division had an improved performance, but there were signs that the brandy market had bottomed.

Other strong selling brands during the period included cider brands Hunter's and Savanna as well as Scottish Leader whisky and Viceroy brandy.

Distell disclosed operating profit from South African operations rose more than 20% to more than R1.7bn.

Rushton said local consumers had responded positively to Distell's product offerings and promotions — especially over the festive season. "Our performance also reflects the continued progress we are making in SA, where we are strengthening our market position with improvements in market penetration and customer service."

Distell's total operating profit was up 12% to R2.2bn.

Finance director Lucas Verwey said the weaker rand had helped buoy profits, adding about R190m. He estimated that normalised earnings before interest and tax would have grown by between 6% and 7%.

Distell increased its interim payout by 4.4% to 165c a share.

Source: Business Day