Bidvest reports 9% rise in headlines earnings per share for half year

Results for the half-year ended December 31 2009 showed a rise of 9,0% in Bidvest's headline earnings per share (HEPS).

Cash generated by operations rose 229,7% to R3,0 billion.

HIGHLIGHTS

- HEPS up 9,0% to 495,0 cents
- Basic earnings per share drop 6,8% to 494,3 cents
- Distribution per share up 9,0% at 207,0 cents
- Trading profit marginally up at R2,6 billion as revenue dips 6,5% to R56,1 billion
- Cash generated operations 229,7% higher at R3,0 billion
- R2,0 billion cut in seasonal working capital absorption boosts already strong balance sheet.
- Strong results by Bidvest Asia Pacific
- Trading margin improved to 4,7% from 4,4%
- Net debt falls to R5,8 billion from R7,9 billion

OVERVIEW

Bidvest CE Brian Joffe today announced "commendable results" for the half year to December 31 2009, despite tough economic conditions. HEPS rose 9,0% to 495,0 cents, but basic earnings per share fell 6,8% to 494,3 cents as net capital profits of R209,4 million were reflected in the comparative interim period. Results include the contribution of the newly acquired Nowaco group with effect from July 1 2009.

Joffe said trading conditions in southern Africa, with the exception of Namibia, were challenging. Bidvest Asia Pacific performed strongly while Bidvest Europe held up relatively well in difficult economic conditions.

The balance sheet remains strong, enhanced by a R2,0 billion cut in working capital absorption. Finance charges are well down. Exposure to the short end of the funding market in South Africa's falling interest rate environment was beneficial. Working capital management improved, assisted by lower trading volumes.

The rand strengthened on average versus sterling and the euro, with negative impact on translation of foreign operations equivalent to 2,9% of HEPS.

Revenue fell 6,5% to R56,1 billion (2008: R59,9 billion). Significantly lower import demand constrained revenue in Safcor Panalpina by R2,6 billion, while the strong rand negatively impacted the translation of the international operations by R3,4 billion. Deflation in South Africa as a consequence of the strong rand was well managed but impacted trading margins. Operating expenses fell and the trading margin improved to 4,7% (2008: 4,4%).

Joffe said headline earnings were impacted by abnormal charges of R53,4 million relating to the acquisition of Nowaco and Farutex. Previously, these once-off acquisition costs would have been capitalised to the cost of the investment, but under the revised IFRS 3 accounting standard are now included as an expense in headline earnings. Without this charge, HEPS would be up 12,8%.

"Our balance sheet remains appropriately capitalised," added Joffe. "Net debt declined to R5,8 billion (2008: R7,9 billion), driven by lower seasonal working capital absorption, despite debt funding of R1,75 billion for the Nowaco Group acquisition."

At 6,8 times, interest cover has improved, with adequate borrowing capacity. Net debt to equity of 37,2% reflects significant improvement (2008: 56,7%). Net finance charges fell 31,5% to R385,6 million. Bidvest's conservative attitude to gearing is considered appropriate in the current climate. Fitch Ratings affirmed Bidvest's rating at A+ with a stable outlook. Moody's rated the Group at A1.za with a stable outlook.

NOWACO ACQUISITION

Nowaco Group is the leading delivered wholesaler to the foodservice and independent retail markets in central and eastern Europe. Nowaco focuses on Czech Republic and Slovakia. Farutex serves the Polish market. The allocation of intangibles following the €250,0 million acquisition has not been audited and accordingly accounting for the acquisition has been provisionally determined under IFRS 3. Nowaco Group contributed R2,1 billion to revenue and R31,8 million to profit, after expensing R53,4 million in acquisition costs. Results met pre-acquisition expectations despite tougher economic conditions.

PROSPECTS

Joffe said adverse economic conditions created by the global financial crisis appeared to be abating, though a return to previous activity levels seemed some way off. He added: "Opportunity has been taken to reassess many businesses and their cost structures in light of the new economic reality and decisive action has been taken.

"Bidvest's decentralised business model has proven resilient over a sustained period of economic upheaval… Our businesses are well resourced and we have the capacity and desire to seek out further strategic acquisition opportunities. "South Africa appears to be on the cusp of economic recovery ... The hosting of a successful 2010 FIFA World Cup™ is an opportunity both for Bidvest and South Africa. Our exposure to the potential accruing to the hospitality industry should provide meaningful benefit. Much of the direct exposure has already been contracted."

Bidvest's UK business is benefiting from previous hard decisions taken and European businesses are holding their own despite soft economic conditions. In eastern Europe, Nowaco and Farutex have exciting potential, "not only in their home countries but as the springboard to growth in other geographies". Businesses in Asia Pacific are well placed for expansion through acquisitions and market-share growth.

Joffe added: "Our focus remains on delivering acceptable returns from funds employed. Working capital management continues to receive the necessary attention. Some absorption will be evident as trading volumes tick up. We remain confident of an improved trading performance to ensure ongoing value creation."

DISTRIBUTION

Bidvest will make an interim distribution of 207,0 (2008: 190,0) cents per share.

DIVISIONAL REVIEW

Bidfreight's revenue of R8,0 billion was well down, but trading profit moved 2,8% higher to R375,6 million, a commendable result. Terminals did well. Depressed billings in international forwarding and clearing on lower import volumes, depressed automotive activity and an operational loss at Manica held back overall performance. Corrective action has been taken at Manica. Safcor Panalpina retrenchment costs have been fully expensed. Trading profit rose at Island View Storage. Chemical imports softened and petroleum throughput weakened, but exports rose. SA Bulk Terminals performed well. Depressed demand impacted SACD Freight. Marine did well in a challenging environment. Bidfreight Port Operations put in an exceptional performance, driven by higher steel, forest products and bulk volumes. Volumes at Bulk Connections were also up following increased exports of sized coal and manganese. RDS performed well, achieving cost savings. Naval did well in a difficult environment.

Bidserv results were below expectation and reflect the impact of recession. Trading profit fell 21,3% to R385,3 million. Revenue dipped 3,5% to R3,5 billion. Banking, Travel, Aviation Services and product-related businesses were most impacted. Cash flow and debtor's collections improved. Prestige produced pleasing results. New Steiner Group management achieved excellent results. Laundry profit fell on lower hotel occupancies. Security operations performed well overall. Travel Services was affected by the corporate travel slowdown and low hotel occupancy. TMS trading profit was impacted by rationalisation costs, but market share grew. Industrial Products was hit by lower workwear and equipment demand. Office Automation produced reasonably good results, with a pickup in product demand. Results at Global Payment Technologies were behind last year. Improved demand is anticipated. Bidair was impacted by the scaling back of airline operations and contract losses. Green Services profit rose despite lower revenue. Transaction values fell steeply at Bidvest Bank and Master Currency.

Bidvest Europe's trading profit rose 12,8% to R447,1 million. Revenue fell 2,4% to R18,9 billion, following a 17,4% appreciation of the average rand versus sterling. UK operations showed resilience despite margin pressure. Trading profit at 3663 First for Foodservice was slightly ahead of budget. Sales were 3% up. Protection of gross margin remains a focus area as food inflation ticks higher. Despite adverse economic data, the Benelux businesses were in line with expectations, though trading profit at Deli XL Netherlands fell as recession hit the hospitality sector. The Netherlands business has bought 60% of fresh produce supplier Stavasius. In Belgium, trading profit was up and cash generation improved. In the Middle East, sales and trading profit dipped at Horeca Trade. Despite being in the start-up phase, sales and profits were reasonably in line with budget at the Al Diyafa JV in Saudi Arabia. In eastern Europe, Nowaco revenue and trading profit exceeded target. Loss of a major quasi-logistics contract impacted Farutex. Replacement sales are being secured.

Bidvest Asia Pacific put in an exceptional performance. Strong Australian and New Zealand results were supported by improved performance in greater China and Singapore. Revenue rose 1,4% to R8,9 billion, with trading profit up 29,8% to R370,9 million. Bidvest Australia continued its run of pleasing results, securing market-share growth. The flagship foodservice division did particularly well. As the period progressed, trading conditions toughened and food deflation became evident. A Sydney produce and meat wholesaler has been acquired, a platform for entry into the Fresh market. Some items of capital expenditure were accelerated to take advantage of government's tax stimulus package. Bidvest New Zealand achieved good results, driven by growth in a declining market and improved trading terms. The business's largest tender ever was secured for the supply of a wide range of products to the Defence Forces and the Corrections Department. Angliss Greater China benefited from the rebounding Asian economies. The core Hong Kong business put in an especially pleasing performance. Mainland China operations are all profitable and looking to expand. Angliss Singapore exceeded expectations.

Bidfood's overall results were flat. Revenue was 2,3% lower at R2,6 billion while trading profit of R214,1 million was down 1,6%. Caterplus was impacted by intense pressure on restaurants, hotels and conferencing. Industrial catering volumes also fell. Management remains strongly focused on debtor's risk and expense control while competing aggressively for growth. The FIFA draw in Cape Town provided a snapshot of the 2010 FIFA World Cup™ effect at work. Hotel occupancy for the week approached 100% with many restaurants full. Speciality maximised festive period opportunities through comprehensive planning. A firmer rand assisted margin management, but contributed to deflation. Bidfood Ingredients recorded pleasing results. Revenue was impacted by lower sales of commodity products. Trading profit moved materially higher. The Crown National Group's results were impacted by deflation. The Chipkins Bakery Group continued its upward momentum, while NCP Yeast performed well.

Bid Industrial and Commercial Products recorded disappointing results. Trading profit fell 47,6% to R170,2 million. Revenue contracted by 12,8% to R4,3 billion. Though trading profit fell at Electrical Wholesaling, margins were maintained. Cash flows stayed positive. Voltex was impacted by the tailing off of large projects. Voltex Solutions is still building momentum. Stationery and furniture experienced a big fall in trading profit, flat revenue, margin squeeze and expenses pressure. Waltons is revising its distribution model to align costs with international norms. Waltons new filing division met expectations. Expenses were well managed at Contract Office Products. Kolok grew revenue despite tough trading conditions. CN Business Furniture, Seating and Dauphin were hit badly and recorded operating losses. Packaging and Catering equipment suffered a small dip in trading profit off slightly lower revenue. Trading improved in the second quarter at Afcom GE Hudson. Buffalo Executape was under pressure but will improve going forward. At Vulcan an encouraging second quarter lifted trading profit. Bidpaper Plus was bolstered by a late rush for product. Revenue of R1,1 billion was flat, though trading profit of R135,1 million was up 4,3%. Cash generation was pleasing, but expenses moved higher. Demand for manufactured print products was sluggish and excess capacity resulted in margin squeeze, though cost increases were well contained. Stationery distribution recovered well after a slow start. Personalisation and mail continued to perform well. Print sales and distribution benefited from export success. Labels and packaging achieved a modest profit, with Rotolabel performing strongly. Alternative products achieved strong growth.

Bid Auto's encouraging recovery reflects restructuring efficiencies at the core McCarthy motor retail business. Revenue of R8,7 billion was marginally below expectation. Trading profit of R278,4 million was up 29,9%. Though new unit volumes were down, demand for used vehicles improved. Margins on both new and used vehicles were better than expected. Parts and service revenue remained solid. Profit at most dealerships rose while the number of loss-makers fell. The underlying trend in new vehicle sales reflects modest growth. Car and van rental revenue remained under pressure. Financial Services revenue fell as a result of lower vehicle volumes, though penetration levels were at record levels, resulting in pleasing trading results. The equity portfolio achieved a significant turnaround. Trading conditions at Yamaha Distributors remained tough as demand for leisure products remained weak. Heavy equipment was impacted by a significant falloff in infrastructural demand. Restructuring of the business will be aggressively pursued. Fleet services was impacted by the slowdown and higher impairment charges, though cash generation was excellent. Arresting the slide in new vehicle net profit remains a priority. Consolidation and multi-franchising will continue at poorly performing dealerships.

Bidvest Namibia, which listed on the Namibian Stock Exchange in October, achieved trading profit of R150,0 million, up 19,0%. Revenue moved 10,3% higher to R949,4 million. Performance was down in the commercial businesses as customers scaled back. Manica Namibia delivered good results on the back of strong demand for freight and agency services. Fishing operations performed well, thanks to excellent catch rates and a recovery in selling prices.

Corporate continued to explore acquisition opportunities. A strategic review of the positioning of the Bidvest brand is being considered. Bidvest Property Holdings continued to successfully manage and grow its strategic portfolio. The restructured Ontime Automotive in the UK delivered an improved result.