Famous Brands revenue up 12%, expands further in Africa

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Famous Brands, which owns Steers, Wimpy and Debonairs, plans to open 243 new restaurants in the coming year after reporting record turnover and profit for the year.

Kevin Hedderwick, Chief Executive of Famous Brands is confident that the company will continue to grow and increase its market share despite competition. Image: Famous Brands

The group's turnover increased by 12% to R2.83bn, while operating profit grew 21% to R566m.

Unlike their broader retail counterparts who are feeling the pinch as disposable incomes come under pressure, those in the quick-service restaurant segment are being affected to a lesser degree as consumers currently favour convenience over cost.

The group's operating margin attained a record high of 20.0%, up from 18.5%.

Group chief executive Kevin Hedderwick said this improvement was a remarkable achievement given higher input costs, and was a reflection of increased system-wide sales, intensive cost containment and improved efficiencies across the business.

In spite of a difficult economic environment, middle-class South Africans are increasingly favouring fast-food dining over preparing food at home.

For the year ended February, headline earnings per share grew 20% to 406c per share. A total cash dividend of 300c per share was declared, an increase of 20%.

Cash generated by operations, after changes in working capital, increased by 23% to R594m.

Group remains ungeared

"The group is ungeared and has net cash on hand of R26m. This strong position facilitates further growth, whether by acquisition or organically," said Hedderwick.

The Streers franchise is performing well in the UK and there are plans to take it to new regions in Africa. Image: Famous Brands

The group's franchising division comprises three regions: South Africa, rest of Africa and international (UK, Middle East, India and Mauritius). System-wide sales across the franchise network grew 13.0%, while like-on-like sales increased 6.7%.

Across the brand portfolio, the group opened 165 new restaurants and revamped 185, over the period. Famous Brands total network comprises 2,378 restaurants.

"We foresee operations in the rest of Africa becoming increasingly significant to the group over time. We plan to open 41 new restaurants across the brand repertoire this year and to enter Angola and Ghana, where we are currently not represented," Hedderwick said.

The continent, with its mushrooming middle-class and large expatriate community, is being seen by consumer industries as the next region for long-term growth.

Consumer spending accounts for over 60% of sub-Saharan Africa's GDP, and in 2012 about a quarter of countries in the region grew GDP at 7% or more.

Africa represents growth

Wimpy stores are doing well for Famous Brands, which intends to open another 243 stores across all franchises in the coming year. Image: Sandton City

Several, like Sierra Leone, Niger and Côte d'Ivoire, are among the fastest-growing in the world. Overall, the region is forecast to expand at more than 5% over the next three years, far outpacing the global average, according to the World Bank.

Meanwhile, notwithstanding dire trading conditions in the UK market, the group's UK operation recorded one of it's best-ever results - a reflection of the significantly better-managed cost base. The group operates its Wimpy and Steers brands in the UK.

Revenue in sterling decreased by 6%, while revenue in rand terms improved 11% to R92m. Operating profit rose to R13m, as no repeat impairment of the UK goodwill was required. The operating profit margin grew to 14% from 6.5% in the prior year.

Consolidated revenue in its logistics and manufacturing businesses increased by 12% to R2.15bn while operating profit rose 27% to R204m.

The company said it anticipated the period ahead to feature intense competition as operators strive to retain or gain market share.

"New and non-traditional participants joining the industry will exacerbate this competitiveness. Value and quality will remain the key drivers for growth as cash-strapped consumers selectively spend reduced disposable income.

"Margin pressure, which has been the watchword for several years will become more acute, both at group and franchisee level," the company said.