Acquisition-hungry IMPERIAL reports 23% jump in profit

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The JSE-listed IMPERIAL Group on Wednesday reported that revenue for the six months ended December 31 was up 22% compared with the same period last year, to R38.3-billion.

Operating profit jumped 23% to R2.6-billion, with headline earnings a share in line with last year's result, at 727c a share, as was operating margin, at 6.8%.

The interim dividend was up 36% to 300c a share.

IMPERIAL CEO Hubert Brody said in Johannesburg that the group had spent R77-million on acquisitions of subsidiaries and business over the six-month period.

The 100% Lehnkering acquisition was effective only from January 2, 2012, and was expected to make a roughly R100-million contribution to the group's yearly after-tax profit going into the new calendar year.

Lehnkering, a specialist logistics company in Europe, was acquired for an enterprise value of €270-million.

"The group achieved an excellent first-half result with strong revenue and profit growth," summarised Brody.

"We benefited from a good new vehicle market and improved trading by the logistics division in Southern Africa and Europe. Our strategy to add parts, components and industrial equipment businesses offers resilience and these operations now contribute almost 10% of group revenue. We continue to generate robust returns on capital, with return on equity up to 23%."

Brody said the group's balance sheet was in good shape "despite strong organic and acquisitive growth".

The group's net debt to equity (excluding preference shares) at 39% was significantly lower than in December 2010 (48%). After adjusting for the Lehnkering acquisition, the net debt to equity (excluding preference shares) was 59%, which Imperial said was still below the target gearing range of 60% to 80%, and which "left room for further expansion".?

Cash invested in working capital amounted to R2-billion, reflecting higher levels of activity.

STAR PERFORMERS?

The Distributorships division, which included brands such as Daihatsu, Hyundai, Tata, Proton and Kia, achieved growth of 42% in operating profit.

Automotive Retail also improved its operating profit by 20.3%, with both divisions showing higher margins.

The group sold 55 800 new and 29 556 used vehicles in South Africa over the six-month period, respectively 14% and 5% more than the prior period.

Brody said IMPERIAL had also benefited from improved trading by the Southern African Logistics division, which increased its revenue by 27.8% and operating profit by 17.4%. International Logistics showed a 25% jump in operating profit, and 17% growth in revenue. However, the margin in the combined logistics businesses declined to 5.7%, from 6.1%, as the margin in Southern Africa slipped to 4.8%, down from 6.7%.??IMPERIAL's parts, components and industrial equipment businesses – including Jurgens, Beekman, Midas, Turbo Exchange, Goscor and E-Z-GO – contributed turnover of R3.5-billion and operating profit of R237-million, up 5% from the prior period.

The R77-million spent on the acquisition of subsidiaries and businesses over the six-month period saw a raft of newcomers to the Imperial Group.

The group, for example, acquired 74.9% of Dettmer Bulk Reederei, a dry bulk shipping business operating on the Rhine; 70% of Datadot, a business that uses micro dots as a security identification system to protect motor vehicles, motorcycles, trailers, marine craft, home, business and personal assets; 75% of Safari Centre, a vehicle accessories and outdoor equipment business; 60% of IJ Snyman Transport, a logistics service provider in Angola, the Democratic Republic of Congo, Namibia, South Africa and Zambia and 60% of Segway South Africa, an importer and distributor of electric personal transporters.

Brody noted that IMPERIAL remained on the acquisition trail.

"Since Imperial's restructuring in 2008, more emphasis has been placed on businesses which generate higher returns on capital and have defensive annuity income streams. Many successful acquisitions have been made and are generating healthy returns.

"We will look to expand our European and Southern African logistics businesses in markets where attractive opportunities continue to exist. While the business in South Africa is more general, our main aim is to operate in niches internationally."

He said IMPERIAL also planned to optimise its position in the South Africa vehicle market and grow its motor-related financial services.

"We will focus on expanding our current parts and industrial distribution operations and on acquiring new ones which require a similar set of skills to that of our auto distribution businesses," he added.??Brody also noted that acquisitions and partnerships were preferred where the group did not have the necessary skills and relationships, while grassroots development would be considered where the expansion initiative was closely related to and formed a natural extension to an existing business.

“Long-term growth into Africa will be cautious,” emphasised Brody.

Expansion into Africa would also take a number of years, owing to the nature and size of the opportunities in Africa. IMPERIAL’s growth into Africa would be driven by selective acquisitions and would follow the customer base into the continent, with South America also on the horizon.

“The group’s balance sheet remained strong despite significant organic and acquisitive growth during the period and Imperial is well positioned to take advantage of attractive acquisition opportunities as they arise,” said Brody.??

PROSPECTS?

In the Southern African logistics division, year-on-year growth will benefit partly from the low base seen in the second half of the prior year, in spite of current pressure on transport volumes, said Brody.

“The German economy remained solid in the sectors and industries in which the group operates. The Lehnkering acquisition and the favourable terms of the financing arrangements will also make a positive impact on International Logistics.”??

Conditions in the car rental and tourism industry were expected to remain tough, although some improvement in the used car market owing to recent new car price increases could be expected.??

“Although we expect a slower growth rate for new vehicle sales, this will be offset by the strong positioning of our product brands, significantly improved product supply and the benefits that flow from parts, service and financial services revenue streams,” noted Brody.

“While we believe that the current economic environment will continue to be challenging, our businesses are well positioned to continue performing well in most of the markets in which we operate. We expect the strong performance in the first half of our 2012 financial year to continue into the second half.”v

Source: Engineering News