BIDVEST'S NORMALISED HEADLINE EARNINGS PER SHARE UP 13,6% FOR HALF YEAR

Bidvest's half-year results to December 31, 2011, showed a 37,5% increase in headline earnings per share (HEPS) to 742,3 cents. On a normalised basis, HEPS were up 13,6% to 613,4 cents.

HIGHLIGHTS

- Headline earnings per share (HEPS) rise 37,5% to 742,3 cents
- Basic earnings per share up 31,2% to 710,8 cents
- R399,1 million realised on sale of half of Group's stake in Mumbai Airport
- Normalised HEPS* 13,6% higher at 613,4 cents
- Normal dividend per share up 24,4% to 280,0 cents
- Special dividend per share of 80,0 cents
- Revenue rises 15,1% to R67,3 billion
- Trading profit up 14,9% to R3,2 billion
- Trading margins maintained at 4,8%

OVERVIEW

Bidvest CE Brian Joffe today announced "a pleasing trading performance coming off a high base" for the six months to December 31 2011. The result was enhanced by profit of R399,1 million on the sale of 50% of the Group's interest in Mumbai International Airport Private Limited (MIAL).

Headline earnings per share rose 37,5% to 742,3 cents while basic earnings per share (EPS) rose 31,2% to 710,8 cents. Normalised HEPS* (excluding the MIAL profit) was up 13,6% to 613,4 cents. EPS were impacted by an impairment of the Group's Comair investment of R96,7 million.

Joffe noted that southern African trading conditions had improved but sectors like light manufacturing, construction and discretionary consumer spending remained weak. Asia Pacific continued to show solid results though Singapore's performance lagged. Trading in the Australian market remained tough but the business continues to perform well. Bidvest Europe's results reflected an improvement at 3663 Wholesale which was offset as Nowaco in Czech Republic and Deli XL Netherlands reported lower trading profit. Bidvest Namibia's growth trajectory continued.

The average rand exchange rate was weaker against the major currencies in which Bidvest operates. The positive impact on translation of foreign earnings was equivalent to 3,7% of normalised HEPS, with normalised HEPS on a constant currency basis up 9,9%, calculated at 593,1 cents per share.

Financial performance

Revenue grew 15,1% to R67,3 billion (2010: R58,5 billion) and trading profit rose 14,9% to R3,2 billion (2010: R2,8 billion). Margins were maintained at 4,8%.

Higher trading profit was partly offset by an increase in net interest paid of R60,0 million, mainly attributable to additional debt assumed for the Seafood Holdings acquisition of January 2011 and the R1,6 billion spent on the Dinatla share buyback in May 2011. This was cushioned by the interest saving on the net proceeds received on the MIAL disposal. Normalised interest cover remained flat at 8,8 times (2010: 9,1 times). The Group continued to benefit from exposure to the short end of the funding market.

Associate earnings fell 48,5%, primarily a result of the Group's share of losses at Comair.

Net debt increased to R5,6 billion (2010: R4,6 billion) compared to R5,0 billion at June 2011.

Cash generated by operations before working capital changes improved 9,7% to R4,0 billion. Joffe said gains made in reducing working capital over the past two years had now reversed in line with more normalised seasonal patterns on the back of robust growth.

The Group used working capital of R1,6 billion compared to R1,0 billion in 2010. Net capital expenditure on property, plant, equipment and intangibles was R1,4 billion (2010: R1,3 billion), the primary driver being the refleet of Budget Rent-a-Car.

Ratings upgrade

In December 2011, Fitch upgraded the national long-term rating to 'AA-(zaf)' from 'A+(zaf)' and national short-term rating to 'F1+(zaf)' from 'F1(zaf)'. The upgrade was prompted by Bidvest's steady through-the-cycle credit profile, which outperformed that of national peers.

PROSPECTS

Local economic conditions have improved and though growth is low, Joffe said management are quietly optimistic recent momentum would continue. "Exposures to industries such as construction are expected to improve in the medium term as the benefits of the highly awaited government infrastructural programme are felt," he added.

Discretionary consumer spend should improve, benefiting automotive retailing and foodservices.

Improved activity levels are expected within Bidvest's European geographies, but consumer confidence remains fragile. In Asia Pacific, management are confident of further growth.

Joffe added: “Management continues to retain a critical focus on asset management and cost efficiency… Our financial position is sound and we are well capitalised, with ample capacity to fund expansion. Notwithstanding difficult and volatile economic environments, management see genuine opportunities to further expand our geographic footprint and product and service offering, enabling continued real organic and acquisitive growth.”

DISTRIBUTION

A normal interim cash dividend of 280,0 cents per share was awarded (up 24,4%) along with a special dividend of 80,0 cents per share.

DIVISIONAL REVIEW

Bidvest Commercial Division (formerly Bidvest South Africa)

The division produced solid results, with revenue 10,0% higher at R32,2 billion (2010: R29,3 billion) and trading profit up 13,6% to R1,8 billion (2010: R1,6 billion). Trading conditions remained tough, but management rose to the challenge aggressively. New divisional structures bedded down well.

Bidvest Automotive made a positive start, with trading profit up 73,1% at R187,1 million (2010: R108,1 million) while revenue rose to R10,4 billion (2010: R9,1 billion). Results were driven by strong new vehicle sales, the efforts of more focused decentralised teams and more efficient expense management. Profitability was assisted by R27,8 million in insurance and financing commissions from Bidvest Financial Services.

Though new vehicle sales were robust, activity levels dipped in the second quarter. Margin pressure was intense. The VW/Audi branches had an outstanding six months. Smaller franchises faced pressure. Some recorded losses. Used vehicle sales were sluggish and parts department performance flat. The service contribution moved higher. Improved performance was seen late in the period at Burchmores as the new online Autobid system for trade buyers proved positive. The new management team will focus on underperforming franchises and margin restoration as trading is expected to remain difficult.

Bidvest Electrical delivered pleasing results despite pressure on building and construction. Revenue rose 6,4% to R2,1 billion (2010: R2,0 billion) while trading profit moved 16,8% higher to R70,0 million (R2010: R59,9 million). Trading challenges were compounded by copper price volatility. Margin pressure was intense. Debtors management and expense control remained focus areas. Repositioning and rebranding continued. Significant management effort enabled the integration of the loss-making Solutions business into Voltex. Atlas maintained good volumes, but margin pressure was severe. Voltex regions delivered reasonable performances other than Eastern Cape where trading conditions remained weak. Sanlic performance was disappointing, but Waco returned another satisfactory result. Voltex Retail did well.

Bidvest Financial Services

Financial Services returned acceptable results in a tough low-growth market.

Bidvest Bank achieved 10,6% growth in profit before tax to R207,2 million (2010: R187,3 million) on a strong second quarter, a weaker rand and the low interest rate environment. Capital adequacy remained healthy at 17,4%. Deposits grew to R1,5 billion (2010: R1,2 billion). Total assets reached R3,9 billion (R3,1 billion). Expenses were effectively managed while maintaining marketing investment. Net cash flow from operations was R545 million. Branch modernisation continued and four new branches were opened. Product innovation gained momentum. Encouraging growth in corporate leasing was achieved and the leasing business successfully diversified its leasing revenue streams.

The insurance businesses returned good results, notwithstanding an 8,1% drop in profit before tax to R110,6 million (2010: R120,4 million). Net underwriting profit grew 22,0% to R89,2 million (2010: R73,1 million). Policy penetration levels remained healthy on higher new vehicle sales. Vehicle financing returns rose on higher deal approvals and an improved bad debt profile. Profitability was impacted by a R27,8 million commission payment to Bidvest Automotive. The equity portfolio delivered unrealised profits of R29,1 million (2010: R41,9 million).

Bidvest Freight's growth was driven by excellent contributions from the bulk terminals operations. Trading profit of R439,6 million was up 10,1% (2010: R399,4 million) while revenue rose to R10,5 billion (2010: R9,6 billion), up 9,1%.

Island View Storage returned acceptable results despite disappointing throughput. Southern Africa Bulk Terminals had a record six months, boosted by high maize exports. Additional external storage facility usage added to costs. Bidfreight Port Operations experienced difficult trading on lower volumes from key clients. Safcor Panalpina and Rennies Distribution Services were amalgamated into a new business – Bidvest Panalpina Logistics – to give customers broader services. SACD Frieght faced volume pressures. Bulk Connections achieved pleasing growth. Rail service improvements were evident and good progress made on the facilities upgrade. Lower volumes contributed to a lower result at Naval. Manica continued to under-perform. New management have been appointed.

Bidvest Industrial returned disappointing results. Revenue was flat at R775,3 million (2010: R773,8 million). Trading profit fell 20,9% to R49,2 million. Challenges were evident early in the year, though some second-quarter improvements were recorded. Afcom and Vulcan were affected by industry-wide strikes. Price pressures remain acute and exchange rate volatility complicated the trading challenge. Operating expenses moved higher on investment in the World of Yamaha and Materials Handling expansion. Afcom returned poor results as market conditions remained difficult. Berzack Brothers turnover declined as the sewing machine division experienced a difficult period. Materials Handling achieved pleasing turnover growth as new branch expansion progressed. Results at Buffalo Executape were flat, but second-quarter momentum was build. Vulcan had a much-improved first half, achieving solid sales growth. Yamaha sales dipped and overall performance was disappointing. Management was strengthened.

Bidvest Office put in a good performance, boosted by a strong second quarter. Revenue at R2,1 billion was 13,3% up (2010: R1,8 billion) while trading profit rose 41,7% to R141,2 million (2010: R99,6 million). ROFE improved and expenses were well controlled. Management was strengthened following the appointment of a new Waltons MD and a manufacturing manager at the Cape Town furniture factory. Strong technology sales underpinned overall performance, with a big contribution from Global Payment Technologies. The furniture sector showed signs of revival and Cecil Nurse optimised market opportunities. Furniture manufacturing performed above expectations. Closer business unit collaboration is evident. The division has built momentum, but the trading environment remains uncertain.

Bidvest Paperplus had a pleasing first half, despite competitive markets, rising costs and a weakening rand. Revenue rose 3,6% to R2,0 billion (R1,9 billion) while trading profit moved 7,8% higher to R186,2 million (2010: R172,8 million). Results were lifted by a strong December. Expenses and debtors were well managed. A new sub-divisional structure is in place and Kolok is now well integrated into the business. Falling demand and restructuring costs impacted Print and Conversion. Print Sales optimised revenue and export opportunities. Labels and Packaging faced cost increases following the creation of separate packaging production facilities. Sprint continued to perform in line with expectation. Silverray Statmark showed improvement and Kolok did well. Personalisation and Mail achieved good growth, with exceptional performance at Email Connection. Afric Mail entrenched its leadership position, with further investment into full colour digital printing. Labels continued to improve off a low base and Lufil enjoyed good volume growth.

Bidvest Rental and Products performed well, with revenue up 17,8% to R989,4 million (2010: R840,1 million) and trading profit 17,2% higher at R171,6 million (2010: R146,4 million). Results reflect the first contribution of newly acquired Alsafe. Steiner returned more good results, underpinned by stringent cost controls and good margin management. Promising new business gains were achieved. Laundry was impacted by low revenue and rising costs. First Garment improved market share. In Industrial Products, G Fox again performed strongly. Phased integration of Alsafe operations is under way. Puréau performed reasonably off low revenue growth. Execuflora did well and secured good revenue streams. Silk by Design exceeded expectations. Synergies with Execuflora are being explored. Hotel Amenities performed strongly while improving expense management. Rising costs impacted Steripic. Liquipak under-performed.

Bidvest Services was impacted by margin pressure in an intensely competitive sector. Revenue increased by 2,9% to R1,5 billion (2010: R1,5 billion) with trading profit flat at R94,3 million (2010: R95,0 million). Prestige performed to expectation, maintaining margins despite rising wage and operating costs. Margin management improved and costs were well controlled at the Security cluster. Magnum put in a solid performance. The guarding side of the business did well other than in the mining sector. Bidtrack recorded good results and solid growth. Corrective action continues at TMS. CID and Vericon business units performed well, but overall results remain disappointing. Further cost savings will be sought. TopTurf was impacted by low contracting volumes but the maintenance business remains resilient.

Bidvest Travel and Aviation recorded pleasing results, with revenue growing by 20,2% to R1,0 billion (2010: R852,7 million) and trading profit up 39,1% to R146,8 million (2010: R105,5 million). Bidtravel performed exceptionally well, reaping the benefits of recent restructuring. The business enjoyed major tender successes and overheads were well controlled despite retrenchment costs. myMarket was split into three – procurement, online bookings and travel management. Bidair under-performed in the face of account losses, intense price competition and margin pressure. Further rationalisation is planned. Domestic cargo volumes were under intense pressure. Premier Lounges returned improved results, buoyed by increasing passenger numbers. Budget Rent a Car traded well as additional business absorbed excess capacity. The team did well to secure new volume business.

Bidvest Food Division

Business conditions remained challenging, with slowing food inflation and sluggish consumer demand. Despite this, improvements on the corresponding period were achieved with revenue at R35,0 billion (2010: R29,2 billion) and trading profit of R1,1 billion (2010: R956,2 million), although the weaker rand contributed in part to this. The major contribution came from Asia Pacific, but momentum slackened in Singapore. New Zealand exceeded expectations. Europe was impacted by economic headwinds, though UK businesses made good progress. European results were affected by poor performance in the Netherlands and Czech Republic. Disappointing results were recorded in southern Africa.

Asia Pacific

Bidvest Australia showed a modest increase in trading profit in local currency. The business experienced a tough six months as rising unemployment affected consumer confidence and the tourism sector was impacted by international uncertainty. Core Foodservice businesses performed strongly in a subdued market. Fresh and Logistics (QSR) came under pressure. Corporate sales were particularly healthy in the Foodservice operation. Hospitality achieved good growth with packaging and disposable products. Fresh purchased another small fruit and vegetable distributor in Adelaide. Going forward, expense management, labour efficiencies and innovation will receive growing attention. Growth opportunities will be sought in fresh produce and meat. Bidvest New Zealand achieved satisfactory results in a changeable trading environment. Consumer confidence remained fragile and competition sharpened from direct importers. Improved asset management was a highlight. Cash generation remained strong. Foodservice and Fresh exceeded expectations but Logistics businesses were challenged by falling sales. Results at Angliss Singapore were below expectations, mainly attributable to the Local and Export operations. Seafood achieved higher volumes and Foodservice showed a slight improvement. Angliss Greater China achieved profitability growth in all markets.

Europe

Europe expanded its geographical footprint, with entry through a small acquisition into Latvia, Lithuania and Estonia. Across the region as a whole, economic growth remained low or negative. In the UK, 3663 Wholesale staged a welcome recovery buoyed by improved volumes, particularly in free trade. The IT upgrade is proceeding on schedule. Bidvest Logistics returned to profit on significant contract wins. Fleet modernisation was completed. Seafood Holdings was impacted by pressure on customer spend and lower average drop values, but growth in net sales was achieved. Falling domestic consumption impacted Deli XL Netherlands. Pressure in the institutional sector was severe. Hospitality teams performed well. In Belgium, all segments performed ahead of budget but trading conditions worsened. The Middle East businesses secured continued growth, with pleasing sales in Saudi Arabia. In Eastern Europe, Nowaco faced downtrading and margin pressure. Retail remained under pressure but hospitality, restaurant and catering volumes showed reasonable growth. Farutex outperformed, maximising opportunities in recession-free Poland.

Southern Africa

Southern Africa delivered disappointing results in a fragile market. Bidvest Foodservice SA achieved pleasing sales growth, with solid gains in national business. Overall performance was impacted by margin pressures and rising costs. Credit risk increased, particularly in the restaurant channel. Migration of branches into multi-temperature operations continued as did the roll-out of a new ERP solution. Acquisition of the A&S food distribution business was completed. Bidfood Ingredients increased sales, but gross margins were affected by higher input costs, increased discounts on consumer yeast, higher volumes in the supermarket channel and rising expenses. Continued efficiencies are being sought through IT development. New food safety systems are rolling out. Crown factory volumes rose. Conditions in the bakery division remain challenging. Speciality grew first-half sales, but results were impacted by margin pressures. Labour disruptions ahead of the annual trading peak meant second-quarter opportunities could not be optimised. Internal controls and debtors’ management are receiving focused attention.

Bidvest Namibia

The business performed strongly, increasing revenue by 35,9% to R1,3 billion (2010: R923,0 million) while trading profit grew 42,5% to R314,4 million (2010: R220,6 million). Excellent results were again achieved by the fishing division, buoyed by good catch rates and strong horse mackerel demand. All fishing businesses recorded profits at operational level. The commercial division showed signs of a turnaround, though Caterplus and Manica face continuing challenges. Taeuber & Corssen SWA (Proprietary) Limited, a leading distributor of fast moving consumer goods, was acquired for R188,7 million with effect from December 1 2011.

Bidvest Corporate

Sale of half the economic interest in MIAL was completed in October 2011. Bidvest Properties continued to grow its portfolio via additional developments, such as the Waltons property in Durban, and strategic investments. Ontime Automotive in the UK faced challenging conditions, particularly in Rescue and Recovery. Recent contract wins will be beneficial.

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