Taste faces battle with rollouts, conversions

By Larry Claasen

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Shareholders in Taste Holdings are being asked to underwrite a R226m rights offer that would fund the roll-out of its Starbucks coffee outlets and Arthur Kaplan jewellery chain. This follows the group bringing Domino's to SA last year to replace its Scooters and St Elmo's branded outlets.

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It will be a while before one can judge if Taste has made the right call to manage so many changes simultaneously. We will have to wait two to three years to see if the roll-out of new outlets and conversions of existing ones will pay off in the way they are expected to do.

Alpha Wealth portfolio manager Keith McLachlan says investors must decide if they back management or they don't.

The group is not blind to the difficulties of the tasks it is facing and expects things to get worse before they get better. "Launching Starbucks and Domino's within 18 months of each other will negatively affect short-term earnings," it said when it released its results for the six months to end-August.

This transition has already caused strain, with its food division incurring a R30m operating loss. One-off costs related to the setting up of Domino's were blamed.

McLachlan says in one sense it will come down to if it can have a successful rights offer. If it raises enough money, it will be able to put a team together to drive the conversion.

From the outside, it is easy to draw a comparison with its competitor, Famous Brands, which has enjoyed tremendous success over the past few years. Seeing how Famous Brands has performed, there is a view that Taste is set to emulate it.

McLachlan says though there are similarities, there are substantial differences. The one that stands out is that, unlike Famous Brands, Taste has a luxury brands division which specialises in selling jewellery.

This division will account for a quarter to a third of its business over the next few years. Its NWJ chain is resistant to downturns as lower-income consumers shop there when times are good and higher-income consumers go there when the economy is murky.

McLachlan says when Taste bought NWJ, questions were asked about why a fast-food franchise group was taking over a jewellery chain. Looking at how well it has performed over the years, the move to buy it now looks inspired.

Another difference is the type of brands they own. Famous Brands has developed its own chains, while Taste is managing high-profile overseas-based brands. This means that though Taste will get management support from the brand's parent companies, it also has to pay them licence fees.

There is a danger that the parent companies could pull the contracts from Taste at the end of the licence period.

If a choice has to be made between Taste and Famous Brands, the latter is clearly the winner. Though Taste has well-known international brands, in Famous Brands it is going up against a well-established operator that has already proven itself.

Apart from its solid SA operations, Famous Brands recently took a 51% stake in Botswana's Retail Group and this follows it opening its Debonairs Pizza brand in Angola.

Though both Taste and Famous Brands are set to tap into SA's and the continent's growing middle class, Famous Brands is better positioned to take advantage of it - at least over the next three years.

McLachlan says until Taste has completed its transformation, the 2018 financial year will be the earliest period at which it could be determined if it has succeed. There will be so many one-off costs that it would be hard to get a bearing on how the group is performing.

At a share price of R127 and a PE of 27, Famous Brands is pricey. But it has as much, if not more, upside as Taste and none of its downside.

Source: BDpro