

Gourmet can't beef up Famous Brands

Famous Brands has joined the ranks of local restaurateurs buckling under the weight of global names.



The group said on Wednesday that its beefy investment in UK premium burger company Gourmet Burger Kitchen (GBK) would eat into its interim earnings. As a result, the group had taken the decision to scale back on opening new stores. Famous Brands warned on Wednesday that its results for the six months to end-August would be weaker than those reported a year ago.

In the trading update for the five months to July, it said GBK would take longer than initially expected to become profitable. "The trading update was quite shocking," said Mergence investment analyst Nolwandle Mthombeni.

"It revealed that of the 12% sales growth reported for GBK, like-for-like sales decreased by 2.6%, which means the stores they acquired are materially underperforming. This just added insult to injury to an already overpriced acquisition and the market is likely taking a view that it wasn't a great acquisition after all," Mthombeni said.



Famous Brands acquires 100% of Gourmet Burger Kitchen, "the biggest deal the group has ever concluded"

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Famous Brands spent about R2.1bn on GBK in September 2016. To date, some of the stores opened have not met sales projections, "but the board is confident that innovative interventions currently being implemented will rectify this situation over time", the company said.

The share price fell more than 9% in intraday trade. Mthombeni said the shares had been under pressure since the acquisition, which resulted in overgearing and suspension of the dividend.

Vunani Securities analyst Anthony Clark said Famous Brands was the strongest player in the sector and could withstand a slowdown.

"If it was Taste or Gold Brands, I would be scared for my life," he said. Clark said despite its strength, the group's like-for-like sales of 1.8% were "dire" and showed just how difficult local trading conditions were.

Local restaurateurs have had a tough time launching global brands in SA. Taste is still making losses over Dominos Pizza and Starbucks, while Grand Parade Investments has battled with Burger King. It too had to slow down with store openings, though the chain has since become profitable again.

Clark said the outlook for consumer-facing businesses could improve due to lower food inflation. "But if consumers can't or won't spend, then fast food will continue its recent declines," he said.

Source: Business Day

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