AVI aims to resole Green Cross

By Marc Hasenfuss

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Consumer brands giant AVI, which performed commendably in the half-year to end-December, is determined to reboot its footwear division.

Image credit: Green Cross

Results released on Monday showed that after the close of the interim period AVI had given the management team of its top-performing Spitz division direct oversight on the underperforming Green Cross operations. While Spitz hiked operating profit 15% to R335m, Green Cross experienced a drop in operating profit to R4.2m, from R19m in the corresponding interim period in 2017.

AVI, which acquired Green Cross for R382.5m in 2012, said the poor performance was due mainly to the poor performance of the summer 2017 range. AVI CEO Simon Crutchley said costs at Green Cross were well controlled, but not enough to offset the fall in gross profit margin. The change in reporting lines for critical activities in Green Cross would yield material improvements in merchandise planning, stock turnover and retail trading densities in the next 12 months.

Green Cross would not require material funding through the recovery period as cash-flow generation was still positive in the business, he said. Cash would be generated from the reduction of high inventory levels and capital expenditure requirements were insignificant, Crutchley said.

Overall, AVI managed a 2.3% gain in revenue to R7.3bn, translating into a more sprightly 7.5% jump in headline earnings to 325.6c per share. The interim payout was hiked 8% to 175c per share. Cratos Wealth analyst Ron Klipin said the results showed management was able to balance volume loss against price increases in an extremely competitive environment. AVI's cost controls were excellent, with lower input costs helped by the stronger rand.

"Once again strong cashflow generation resulted in debt declining further and could result in a special dividend payable in 2019 if no major new investments materialise," he said.

The divisional review showed AVI's core food and beverages division managing a slender 1.6% increase in revenue to R5.4bn, but operating profit improved up 9% to just more than R1bn. Entyce Beverages - which includes tea and coffee brands such as Five Roses, Freshpak, Ciro, Trinco, Frisco and Koffiehuis - increased revenue 2.6% to R2bn with operating profit lifting 9% to R424m.

Tea revenue rose 8.3%, with selling-price increases offsetting a 4% drop in volumes.

He said the premium Five Roses and Freshpak tea brands continued to perform well, considering the significant price inflation over the past three years. Coffee revenue and operating profit were lower due to significant pressure on mixed instant volumes from "sustained aggressive competitor activity".

Coffee profit and margins remained healthy and the stronger rand, coupled with lower coffee bean prices secured for the second half, could increase volumes and improve profit margins.

The Snackworks division, which includes brands such as Bakers, posted a 0.8% slip in revenue to R2.18bn. But operating profit was up 10% to R452m with the operating margin fattening to 20.8% (18.8%).

Source: Business Day