

Datatec weathers market turmoil

Technology group Datatec expects improvement in its financial performance during the second half of its financial year after a decline in earnings during the six months to August, as it was hit by currency volatility in emerging markets and restructuring of its Westcon business. CEO, Jens Montanana said yesterday the group was still facing "stormy waters".



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"We are starting to crawl out of emerging market turmoil. While things may be improving, we can't say how quickly they will do so" he said.

Currency fluctuation against dollar took it's toll

The slowdown in emerging markets and currency volatility took a bite out of Datatec's halfyear revenue, forcing the group to scale down its operations in Angola. Datatec's African operations, excluding SA, contribute about \$400m to revenue annually. Many of those countries have experienced currency fluctuation against the dollar.

"In particular, we have taken disproportionate pain in the rest of the Africa market," said Montanana, adding that the effect of foreign exchange losses at Westcon Angola was particularly disappointing. Westcon, Datatec's biggest subsidiary, distributes networking, security, unified communications and data centre products. As a result, underlying earnings per share for the six months to August decreased by 8.8% to 16.6 US cents.

Angola in recent years had been an "important" contributor to the Africa and Middle East region within Westcon, said Datatec. In the year to February, revenue in the country totalled 61.1m. The weakened economic outlook for Angola, mainly as a consequence of the fall in the price of crude oil, has led to a decline in the exchange rate of the kwanza to the dollar.

Angola had also introduced capital controls that led to the timing and quantum of conversion from kwanza to dollar being unpredictable. This led to foreign exchange losses of \$8.9m in the first half to August. To mitigate its losses, the group has reduced trading in the country, among other things.

Slowing economies a heavy weight

"We won't pull out of the market. We need to adjust the organisation and costs... and wait for this cycle to pass," said Montanana.

During the six months to August group revenue rose 10.1% to \$3.3bn, driven by the North American region. Operating profit was down 14% to 56.3m, with operating margins declining to 1.7% from 2.2%. The group maintained its dividend payout of \$0.08.

According to Montanana, while there was a strong demand for Datatec's products in the US, the group experienced erratic growth across the world, with some economies slowing. The restructuring of Westcon's businesses in Europe, the Middle East and Africa also weighed down on the half-year earnings. The restructuring would affect 300 employees, with costs expected to reach 13m by the end of the financial year in February next year.

Farai Mapfinya, head of equities at JM Busha, did not expect currency pressures to abate in the short to medium term, given the likelihood of the US Federal Reserve hiking rates soon. "Datatec's prospects are strongly entwined with underlying global economic activity and the uncertainty in the global economy presents evident headwinds for the business. The company has very high operating leverage and is very sensitive to changes on the top line of the business."

Source: Business Day

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