Imperial seeks mergers

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Imperial Logistics has the firepower to spend up to R5bn on deals in Africa and Europe as it looks to fill gaps in its business, CEO Mohammed Akojee says.

“We’ve got a very good pipeline in the rest of Africa region and also in Europe, so I would expect some deals to come through over the next six to 12 months,” Akojee said.

He said the group is not looking for takeovers in SA, where it covered all the necessary bases, but wants to build its network in other parts of the continent partly through acquisitions. It plans to add to its pharmaceutical distribution business in the rest of Africa by also moving into the consumer goods segment.

“And in Europe, we want to extend our service offering into international freight management because then we can offer our clients more of an end-to-end solution, so there’s a gap there,” he said.

The group is “undergeared” after reducing debt, so it has “between R3bn and R5bn of capacity to do acquisitions’’.

Imperial’s asset-light strategy in the rest of Africa was working, Akojee said, citing a 16% increase in operating profits from the region in the six months to December.

In the interim period, group operating profit from continuing operations was unchanged at R1.3bn, even as revenues grew 6% to R26.6bn.

“The rest of Africa accounted for 35% of group operating profit, the same contribution as the SA business. The other 30% came from the UK and Europe.”

Akojee said Imperial is also keen on taking its pharmaceutical operations into French-speaking counties in West Africa, and is eyeing Eastern Europe and Asia “because our clients are going there”.

“The interim result was satisfactory in the circumstances. Volumes were under pressure in SA, while the European shipping business had to contend with a spike in operating costs due to low water levels on the River Rhine in Germany.

“We had to use a lot more equipment in barges to deliver the same amount of product to clients,” Akojee said.

Further, new certification processes for vehicles had weighed on production levels in Germany, “where we’re quite heavily exposed”.

Imperial’s shares closed as much as 10% lower at R64.43 on Thursday, the worst in 2019.

Nicholas Dakin, equity analyst at Suslin Wealth, said while Imperial’s results were in line with management’s guidance, the pressure on the SA business, and costs associated with a restructuring process, would weigh on earnings growth.

“This is probably why the market has reacted negatively to the result,” Dakin said, although the domestic business should, further down the line, benefit from new opportunities in the market and from cost savings.

Akojee said that after selling some of its European businesses in recent years, the group would now reduce its fixed overheads in the region by about 20%.

“With that comes a reduction in headcount in areas like information technology, marketing, tax and finance. It’ll be significant in terms of the savings we’ll make in 2020.”

The global trade war could affect Imperial’s European business, given its ties to Germany’s manufacturing and export industry. “If there are massive tariffs on German exports into the US for example, that would hurt us because we’re right at the coalface of that.”

The group plans to reduce its relative exposure to Germany by following manufacturers as they move into new markets, and by playing in the automotive aftermarket segment.

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