IMPERIAL: Who is going to beat a 42% dividend increase?

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JOHANNESBURG - Imperial Group (JSE:IPL) thumped like a well-oiled turbo diesel in the year to June despite a sluggish economy and a number of paralysing transport strikes outside the group.

Several revelations at the presentation in Parktown on Wednesday had analysts' jaws dropping and shareholders exulting – most notably an adjusted core earnings leap of 32% to 1623c and a 42%-better total dividend of 680c (480c). In three years group turnover has grown 80%.

All three cylinders of Imperial fired healthily – distribution and financial services, logistics and car rental and tourism. The group outperformed in motors and financial services. Even car rental did well raising pre-tax profit 17% in spite of non-recurrence of World Cup traffic.

With new acquisition CIC in for the full 12 months, Southern African logistics grew revenue 19% to R16.45bn and operating profit 16% to R910m – "satisfactory in tough conditions". The division made a number of good contract gains. That was in spite of a market made soggy by stagnant manufacturing and strikes. Namibia was a bit leaden but a number of transport corridors have recently improved and CEO Hubert Brody remains excited about logistics into Africa.

Brody told me that Imperial has outstanding partners in the German logistics operation, Imperial Reederei.

The first part of this thriving logistics business, which operates barges on the Rhein, was acquired at the end of Bill Lynch's tenure from Thiessen Krupp, who thought shipping was non-core. Imperial and its German partners hit it off from the start and profit growth has been solid. It was the German partners, who drew the attention of Hubert Brody's new team to a similar business up for sale - Lehnkering.

There was a bidding contest and Imperial won. Now the first six months' results are in, it is evident that, even for € 270m, it did not overpay. This year Lehnkering (now part of Imperial Reederei) will be one reason acquisitions of the past three years will contribute an additional R15bn in "earnings enhancing" revenue in the year ahead.

International logistics, with Lehnkering in for only six months, contributed R1.1bn of revenue and an operating profit of R59m (a rise of 55%). Imperial is fortunate in being exposed only to Germany, whose manufacturing exports are the major drivers of growth, while the rest of Europe plods. Lehnkering is expected to contribute roughly €10m a year.

It was not only some 15 acquisitions that gave Imperial a spurt. Even without acquisitions operating profit would have grown 11%.

Brody is a bit cagey on why Imperial Distribution has outperformed the recovering auto industry with its own unit sales up 20% compared to the market's growth of 13%. This division sold 19 113 vehicles in 2001 and in 2012 topped 722 000.

Brody's explanation: "I guess we had the right product mix for this market. We are focused on affordable cars,such as Hyundai, Kia, Mitsubishi, Renault, Chery, Foton and a JV with Bidvest with Daihatsu. We also sell a few Lamborghinis and Bentleys."

This sales performance was good for insurance and banking sales. Financial services kicked in with an operating profit of R775m.

Capital management, Brody stressed, is in everything that Imperial does. It seeks asset light opportunities.

He is satisfied with the present three-legged make-up of the group. Brody expressed some interest in engineering supplies in the future. Was this not a radical departure from the present “asset light” portfolio?

“I was thinking of components for the coming infrastructure takeoff. We do car parts very profitably. We are also strong in fork lifts, so we might find something in these areas.

Are there any regrets about dropping the Imperial Car Rental name and switching to Europcar? “None at all. Recognition of the Europcar name is far better among inbound tourists. We benefit from all of Europcar’s global advertising.”

dividend cover by core earnings has dropped to 2.38 (2.57). Is this the desired level of cover? “I would say it is sustainable for the foreseeable future.”

The share price gained 1.7% to R197.43 shortly after the results were published. That was a gain of 76.5% on the year and gave a market cap of R41.4bn. In 2009 the share hit a low under R50. The new (adjusted) earnings figure gives a PE of 12.2 and the dividend yield is now 3.4%.

Source: Money Web