Grand Parade slashes Burger King target

By Marc Hasenfuss

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Investment company Grand Parade Investments (GPI) has warned that an ambitious target for opening outlets for its Burger King fast food brand had been slashed.

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In August GPI, which acquired a 91.1% stake in the Burger King SA master franchise in late 2012, penciled in a target of 100 outlets by the end of June next year.

However, CEO Alan Keet - speaking at an SBG Securities investment conference on Friday, 28 November 2014 - said GPI's initial target had been reality-checked and that the rollout of Burger King outlets was not as easy as expected. GPI had decided to slow down Burger King's expansion "purely from a margin point of view".

"We don't want to roll out stores while the margin is not right. We are 3% away from the correct margin, and we should have the margin right by the end of December."

The desired long-term margin for Burger King was about 60%, Keet said. "We will get to 56% by the end of December."

Revised target

The revised store opening target was now 60 stores by the end of June next year. "We could probably get to 70 to 80 stores, but 60 stores is the new minimum (target)," he said.

There are 25 Burger King outlets in SA - 12 in Western Cape, 11 in Gauteng and two in KwaZuluNatal. New outlet openings cost, on average, about R5m per store.

Keet said Burger King would show a small loss in the year to end-December. "We hope to correct matters by the end of

June next year."

But Burger King had still exceeded initial revenue targets.

Burger King has become GPI's most important asset since selling off its gaming interests, which included stakes in the GrandWest casino and various limited payout machine (LPM) operations.

Spurred on

The company also holds a 10% stake in Spur Corporation, acquired earlier this year as part of a leveraged black economic empowerment transaction.

While the bulk of the proceeds flowing from the sale of gaming assets would be earmarked for growing Burger King, Keet said the company wanted more of Spur. "There might be an opportunity to buy more Spur shares on the open market ... we know we won't get such a sweet deal again."

Although GPI has not yet received the proceeds from the sale of its gaming assets, Keet believed regulatory approval was imminent for the sale of both its LPM and casino assets.

A market source said the pullback in prospective outlet numbers was not entirely unexpected as the initial target seemed a "big ask" for a new fast food brand. "It's slightly disappointing, although it seems the longer-term strategy around Burger King is still intact.

"But in these kinds of rapid rollout situations, it's always better to underpromise and overdeliver."

Vunani analyst for small to medium caps Anthony Clark said GPI's decision to scale back the expansion target for Burger King did not mean the company had lost faith in the brand. "GPI have plenty of capital and seem to have the supply chain in place.

"There might have been a realisation that such an ambitious rollout plan might have unnecessarily strained cash resources and put pressure on return on equity."

Source: Business Day