

# Distell eyes acquisitions

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Acquisitions are key to fortifying growth prospects and duty-free access to China could be a game changer for the local wine market, liquor conglomerate Distell has indicated.



Boasting Remgro and the Public Investment Corporation (PIC) as major shareholders, Distell has a presence in the wine, cider, spirits and ready-to-drink market. Its best-known brands are Savanna, Hunters Dry, Bernini, Nederburg, Durbanville Hills, 4th Street, JC Le Roux, Klipdrift, Viceroy, Amarula, Bisquit and Scottish Leader.

At an investment presentation covering the interim results to end-December on Thursday, CEO Richard Rushton noted that acquisitions were crucial to enhance existing markets and unlock new markets.

"There is a strong pipeline with interesting potential for diversification and step change. But we will be responsible in terms of what we are willing to pay for acquisitions."

Opportune Investments CEO Chris Logan argued that duty-free access to China could be a great opportunity to market Distell's wine.

Australia-based Treasury Wines was earning a 36% ebit (earnings before interest and tax) margin in China - facilitated by

duty-free access into that country, he said.

South African wine producers were disadvantaged by the ad valorem tax on South African wines brought into China, Rushton said. But he conceded there would be a lot of opportunity to market premium local African wines. "Duty-free access to China would be a game changer for SA's wine industry."

Distell already has a foothold in China via a joint venture company which has been marketing Savanna cider since last December. Plans are to introduce ready-to-drink brand Bernini from April, while Distell plans to break ground on local production shortly.

Distell's interim numbers showed the effects of tough consumer conditions and added competition. Revenue was up only 2.4% to R12.5bn on a sales volume decline of 3.1%. This is the first time since 2004 that Distell has reported a volume decline. Cider, Distell's reliable profit spinner for more than two decades, was affected by trade down as disposable incomes come under pressure in SA.

Rushton also noted intensified competition from beer pricing as well as recent ready-to-drink launches. Beer giant Heineken relaunched Strongbow cider into SA recently.

"We will defend our cider position in SA with innovation and investments."

Looking ahead, Rushton said Distell was evaluating its operating model in a bid to reduce costs and enhance efficiencies as the company chased growth domestically and in selected global markets. "We will invest more resources in fewer brands and play to our strengths.

"We will also increase efficiency by building fewer brands in validated priority markets."

*Source: Business Day*

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