OPINION

COBUS CILLIERS: A taste for shareholder returns

Spur is on a good strategic trajectory under CEO Val Nichas who has re-energised the workforce

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Val Nichas. Picture: SUPPLIED

Positive investment yields ... above-market returns ... alpha. In the active investment management industry, this is the objective: to generate an above-average return relative to the mandate and risk appetite.

There are many ways to achieve this outcome, yet it most certainly is not an easy task. Fortunately, there are some signposts that provide reassurance you are on the right track, though the past two years has made spotting these signposts a bit more nuanced.

Covid-19 has changed many aspects in the corporate world. Office workers are working more from home, pet ownership has increased and the way we spend our travel and leisure budgets has changed. The corporate carnage Covid-19 left behind, specifically in the travel and leisure industry, has been heartbreaking. Many restaurants, hotels, guest houses, and shops were forced to close, with a depressing number not being able to open again after the lockdowns.

The recent demise of Comair is another sombre reminder that even those businesses that have survived the pandemic still need to be nimble in their approach. Success is not guaranteed and corporate casualties are still being claimed.

Though the frustrating reality of the corporate world can be discouraging, it is great to see that numerous companies have started to claw back to pre-Covid-19 profitability levels. One example in the travel and leisure industry, which stands in strong contrast to the unfortunate above-mentioned companies, are the local car rental companies (such as the subsidiaries of Barloworld and Motus). These companies have been able to produce stellar results over the most recent reporting period, partly due to the excess supply that was removed from the market.

Charles Darwin is often misquoted as saying "the fittest will survive". What Darwin actually said was: *"It is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself."*

Successfully adapting

Companies, whether private or listed, are in many ways, like living organisms. If companies are not able to adapt, they will not survive the dynamic business environment, but those that can adapt to the changing demands, and take advantage of the different situations thrown at them, will grow and become even stronger.

This brings me to a company that has and is still in process of successfully adapting to the changing environment it finds itself: Spur Corp.

This small, JSE-listed company is the franchiser of some of SA's most-loved restaurant brands, namely Spur, Panarottis, The Hussar Grill, John Dory's, RocoMamas, Casa Bella, Nikos and most recently, ModRockers (a vegan burger offering). It has been able to reposition itself extremely well for improved shareholder returns, for a variety of reasons.

Many market professionals have not followed the company over the past few years, in part due to its small size and, in part, due to the sector it finds itself in (which has been decimated by Covid-19). But there has been a lot of positive changes at the company.

One of these positive (and the most interesting) changes, has been the appointment of industry veteran Val Nichas as CEO in January 2021. In less than 18 months, Nichas has been able to not only re-energise the workforce of the company but also provide a much-needed positive culture change within the business. The company is clearly on a good strategic direction with the new leadership.

Fewer disruptions

But there are other reasons Spur seems like an interesting investment, one being its share buyback. In September 2019, Spur announced the approval, and successfully completed, the buy back of 10.5-million of its own shares (more than 10% of the shares in issue). This is very relevant for prospective or current investors, given the timing of this buyback.

The year end for Spur Corp is June 30 of each year. This means that the benefit of the lower share count was almost completely negated by the severely negative effects from the Covid-19-related lockdowns in the 2020 financials. Thus, the coming June year-end will mark the first full year of financials, with the lower share count and with significantly fewer disruptions than in 2020 and 2021.

Thus, if Spur returns to 2019 levels of operating profit, its earnings per share could be more than 10% higher, given the lower share count.

Spur operating performance will further be enhanced by the return to normal operations, less competition in the eating out space (as many restaurants have closed), and the introduction of many new menu items and a new brand or two (such as ModRockers). Its strong balance sheet (the company is in a net cash position), and generous dividend policy is a clear indication of good capital allocation and an alignment to shareholder returns. We believe this “small-cap” should be interesting to more investors.

Some of the best research any investor can conduct, is what we call “primary research”. Simplistically it means the investor should try to experience the product or service. If you are considering making an investment in Spur shares, go to one of its 545 restaurants in SA. It might convince you that Spur Corp not only has a taste for life, but a renewed taste for shareholder returns.

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