

HGL suffers a bit as it changes focus

Sue Mitchell

Branded consumer goods supplier HGL is paying the price for passing on rather than pocketing the benefits of the stronger Australian dollar.

While sales volumes rose by 5 or 6 per cent in the six months ending March 31, revenues slipped 3 per cent to \$81.8 million and net profit from the company's remaining importing and wholesaling operations was flat at \$4.1 million.

The former investment company sold the last of its share portfolio last year to focus on consumer products, boosting net profits in the first half last year to \$7.8 million.

The company also gained in the year-ago period from strong demand for large-format printers and eye-testing instruments, fuelled by the government's fiscal stimulus spending.

Chief executive Michael Mahoney said markets remained tough but

HGL

Half year	2011	2010
Sales (\$m)	81.8	84.8
Pretax (\$m)	7.9	13.7
Net (\$m)	4.1	7.8
EPS	8¢	15.3¢
/Int div*	6¢	6¢
Shares (last)	\$1.32	+1.54%
*Payable	July 8	

trading in the first half of 2011 was stronger than it had been in the second half of 2010 and he expected the trend to continue in the current half, lifting full-year earnings.

"The first half of 2011 has been substantially stronger than the second half of 2010 so I'm very encouraged by that," Mr Mahoney said. "It's tough out there but we genuinely believe we will beat last year's [underlying] full-year result."

HGL will pay a fully franked interim dividend of 6¢ a share.

Sales and earnings in the first half would have been higher if not for HGL's policy of passing on most of the benefits of the stronger Australian dollar. The company reduced wholesale prices by between 7 per cent and 20 per cent, reducing total sales by about 9 per cent.

"We are in a sense the brand managers in Australia and we are market leaders in virtually all the niches we're in," Mr Mahoney said.

"We view business as a long-term proposition and when the Australian dollar goes up we pass a substantial portion of the benefit onto our customers and when the Australian dollar goes down we expect to be able to put our prices up."

He said HGL was benefiting from its decision to withdraw from funds management and share trading and focus on its consumer products

businesses, which range from home sewing and craft supplies, beauty products and model cars to uniforms and point-of-sale materials.

"By selling [funds management and shares] not only did we get rid of a pile of debt, now we have a real focus throughout HGL," Mr Mahoney said.

"We now are clearly a sales-focused organisation and so much energy is going into lifting the standards in everything we do to lift sales and profitability. I'd like to think that's contributing to the encouraging results in the first half of the year."

HGL is seeking to grow by broadening its product range and expanding into adjacent markets.

It has added uniforms, bags and shoes to its Mountcastle headwear division and is now selling direct to schools. It has also augmented sales of beauty products by adding new brands and distributing more widely.