Dufry posts ‘resilient’ 2018 results despite challenges in South America

“2018 proved to be a challenging year for Dufry but we delivered resilient results,” says Julián Díaz, CEO of Dufry Group

Swiss-based operator Dufry delivered “resilient” 2018 results despite difficult market conditions in certain geographies.

Turnover last year grew 3.7% to CHF 8,684.9 million (US$8,653.6 million), with organic growth up by 2.7%.

EBITDA reached CHF 1,040.3 million (US$1,036.6 million) in 2018, an increase of 3.3%.

In the second half, headwinds impacted performance in Spain, Brazil and Argentina, impacting organic growth. After turning negative in Q3 2018 (-0.7%), organic growth returned to positive territory in Q4 2018 (1.8%), mainly due to the positive contribution of openings in Asia, namely in Hong Kong and Australia.

The company said it would continue the refurbishment of operations across the group to improve customer experience and maximize sales.

It reported that 34,800 square meters had been refurbished in 2018, including the implementation of its New Generation Store concept at London Heathrow Airport T3 (2,500 square meters) and Cancun T3 (1,800 square meters) as well as several stores at Malaga and Bali airports.

26,800 square meters of gross new retail space opened in 2018, including the start of operations aboard 16 cruise ships, totaling over 4,000 square meters across 48 stores.

Important duty free operations opened at the MTR high-speed railway station in Hong Kong (three stores – 1,500 square meters) as well as 57 stores across several operations in North America adding 5,100 square meters.

Currently, Dufry has contracts signed to open a further 19,800 square meters of new space in 2019 and 2020, including operations on 19 new ships from P&O Cruises and Holland America Cruises (27 stores – 4,500 square meters), 18 new stores in Boston totaling 1,300 square meters, as well as 11 new stores at Chicago Midway, totaling 1,100 square meters.

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Julián Díaz, CEO of Dufry Group, commented: “2018 proved to be a challenging year for Dufry but we delivered resilient results. Besides managing the daily business, the teams made a major effort implementing the Business Operating Model throughout the whole year – a task that involved countries, divisions and headquarters alike and requested a close collaboration.”

He continued: “I am pleased with the organic growth recovery in the fourth quarter. After organic growth being negative in the third quarter, this return to positive growth is an important achievement. Also, the continued improvement seen in the first two months of 2019, with total growth at above +3%, confirms that we are moving in the right direction.”

In 2018, Dufry continued to generate top-line growth in most of its operations, driven mainly by organic growth, he said.

“Despite headwinds in selected markets, Dufry has a strong strategic positioning with a broad portfolio of high-quality concessions across many markets in a sector with positive fundamentals. Our focus continues to be the delivery of sustainable long-term results for our shareholders,” he said.

PERFORMANCE BY DIVISION

Southern Europe and Africa: Turnover reached CHF 1,854.0 million (US$1,847.3 million) in 2018, from CHF 1,857.8 million one year before. Organic performance in the division was -2.6% in the full year 2018.

The Spanish business was negatively impacted by a change in the mix of passengers towards lower spending nationalities. On the other hand, Turkey benefited from the shift and posted good performance. Other locations such as Italy, France, Malta and Kenia, all posted good growth.

UK and Central Europe: Turnover grew to CHF 1,974.2 million (US$1,967.1 million) in the year, versus CHF 1,945.1 million (US$1,938.1 million) in 2017, with organic growth in the division reaching 0.3%. The growth along most part of the year in the region was largely impacted by the closing of operations in Geneva as of October 2017. Excluding such impact, organic growth reached +3.4%.

In the UK, the main operation in the division, performance was solid during the whole year, supported by a stable growth in passenger numbers as well as refurbishments and marketing initiatives. Switzerland, excluding Geneva, also posted good growth, due to a combination of the refurbishment and introduction of the New Generation Store concept in Zurich, along with growth in passengers.

Eastern Europe, Middle East, Asia and Australia: Turnover amounted to CHF 1,153.6 million (US$1,149.5 million) in 2018, from CHF 1,011.4 million (US$1,007.8 million) in 2017. Organic growth was double-digit at 15.1%.

The opening of operations in Hong Kong and Perth were key to maintain organic growth at high levels, the company said, despite the higher comparables since the third quarter.

In the Middle East, operations in Jordan, Kuwait, Sharjah and India continued to grow solidly. The growth trend in Asia remained strong during 2018, although there was some slowdown in the second half of the year due to stronger comparables.

The company saw a “solid” performance in operations such as Cambodia, Macau, South Korea and Indonesia. Australia posted double-digit growth in the year, supported by the opening of the New Generation Store in Melbourne.

Latin America: Turnover fell to CHF 1,617.0 million (US$1,611.1 million) in 2018 versus CHF 1,694.0

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million (US$1,687.9 million) one year earlier. Organic growth for the year stood at -3.5%.

Most operations in South America faced challenging conditions, driven by a strong devaluation of local currencies. Brazil and Argentina were the most impacted locations, with the Brazilian Real and the Argentinean Peso devaluing 15% and 70%, respectively, in the year.

Other operations in South America also saw a slowdown in performance as a knock-on effect from the two key countries above, especially in the second half of the year.

Central America and Caribbean had a good performance along the year, further supported by a strong development of the cruise business, where Dufry started operations onboard 16 new ships.

North America: Turnover reached CHF 1,884.4 million (US$1,877.6 million) in 2018 from CHF 1,771.5 million (US$1,765.1 million) in the previous year. The division delivered a good organic growth, totaling 6.8% in 2018, driven by a combination of passenger growth and new openings during the year.

The duty paid business delivered a solid performance throughout the year, while growth in the duty free operations was resilient as well until the third quarter.

During Q4 2018, organic growth slowed slightly down to 4.7%, mainly driven by a change in the Chinese passenger profile, resulting in a lower spending and impacting the duty free business in the region.

TRADING UPDATE & OUTLOOK

Despite that the headwinds in certain countries – particularly in Brazil and Argentina, and to a lesser extent in Spain – are likely to persist for the coming quarters, Dufry's business model and the fundamentals of the travel retail market remain solid, the company said.

Based on current indications of its trading in 2019, Dufry expects a continued gradual improvement in organic growth during the year.

In the first two months of 2019, total growth was above +3%. The growth improvement in early 2019 was mainly due to the contribution of new concessions.

Mid-term average organic growth is now expected to be in a range of between +3% and +4%.

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