Swiss likely to cushion Spar from heavy weather at home

Spar Group's move into Switzerland means the retailer will probably weather the storm in its home market, where consumers are under pressure from a weakened currency and higher interest rates.

The group, which reported interim results on Wednesday, said that while the numbers did not include data from Spar Switzerland, the acquisition would allow the company to enhance its scale and provide further foreign currency diversification benefits.

In the past month, the rand has depreciated about 11% against the dollar. Spar's operations in Ireland, through a majority stake in the BWG Group, and now in Switzerland will allow the retailer to generate revenue in hard currencies.

CEO Graham O'Connor told *Business Day* that the group was still settling in, having been in Switzerland for only a month.

"It's a good rand hedge and the opportunity made an enormous amount of sense to us. At this point we aren't looking for more acquisitions. Our primary focus remains SA and Southern Africa," he said.

Revenues in Switzerland would account for more than 10% of Spar's total turnover.

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Sasfin Wealth senior equity analyst Alec Abraham said the Swiss acquisition made sense because it was stable.

"The Irish distribution was outsourced, but in Switzerland, as in SA, the distribution is handled by Spar. It will be earnings positive on the bottom line."

Abraham said the interim results were reasonable, but normalised headline earnings came in a little less than expected. However, "probably out of all the food retailers, Spar achieved the highest volume growth".

Unlike other retailers, Spar operates as a voluntary trading group, as opposed to a franchise group. Spar does not make money from franchise fees but from the procurement, distribution and sale of goods to its retail network. This means it does not play in the retail margin space - it receives only a wholesale margin and a distribution margin.

In the six months to end-March 2016, Spar reported a 5.4% rise in headline earnings per share to 480c compared with the year-earlier period.

It said this result was partly due to a foreign exchange loss of R42m. After adjusting for this, normalised headline earnings per share increased 17.2%.

Retail revenue from its South African stores grew 9% to R36.8bn, accounting for 87% of the group's total revenue.

Its aftertax profit grew a more moderate 5.3% to R825.4m after absorbing food inflation. Spar declared an interim dividend of R2.55, a 6.7% increase from the matching period's R2.39.

Source: Business Day