BIZCOMMUNITY

Bleaker outlook hits Woolworths stock

By Marc Hasenfuss

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Shares in upmarket retailer Woolworths (Woolies), the darling of the JSE's consumer sector, were shredded yesterday, with nervous investors fretting over less compelling prospects for the financial year ahead.

Woolworths CEO Ian Moir.
Photographer: Trevor Samson

Image source: BDlive

The shares finished 7.65% down despite Woolies reporting a 17% increase in revenue to R35.5bn and a 31% gain in headline earnings to 252c a share in interim results to end December. At one point the stock dipped as low as R84.20 — a drop of more than 9%.

One market source suggested there had been a spate of selling by foreign investors.

If the contribution from recent Australian acquisition David Jones was stripped out, then the Woolies top line was up a solid 12.3%.

While the interim numbers largely met expectations, the market is clearly fretting about prospects for the second half.

Although Woolies CEO Ian Moir reported robust trading for the first six weeks in the second half, independent analyst Syd Vianello said that there were tough times lying ahead for Woolies in the South African and Australian markets.

In SA, Woolies faced not only the prospect of higher interest rates, but also the possibility of an increase in value-added tax (VAT). "I would not touch a retail share now. I'd rather wait two weeks for the budget until the state of play as regards VAT is clear," Vianello said.

Directors underlined their confidence in the company's prospects by hiking the interim payout 38% to 133c/share. Shareholders have been offered a scrip dividend option.

Avior retail analyst Kyle Rollinson suggested the scrip dividend option might have weighed on investor sentiment. "The market does not like scrip dividends, and we saw this with (fashion retailer) Foschini. It can be indicative of a share being expensive."

In a note to clients, JP Morgan Cazenove analyst Stephen Carrott said the scrip dividend was a complete surprise considering the relatively comfortable gearing of Woolies.

He said Woolies management attributed the scrip alternative to a combination of going into an intensive capital expenditure phase of the business and uncertain economic times on the horizon.

A divisional breakdown showed clothing and general merchandise posting a much improved half, with sales growing 12.5% in SA. Moir reported a good performance from core womenswear and menswear categories and a strong improvement from childrens wear.

The food division pushed sales up 12.1% and operating profit up 18%. Moir said that the company's supermarket strategy proved successful, adding that Christmas sales had been strong.

In Australia, department store business David Jones increased sales 11% on a 26-week basis, while Country Road saw a 5% increase in operating profit from a 13% gain at top line.

Source: Business Day