

Little hope in sight for SA's retail sector

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The food and drug retailers index rallied just under 9% last week following the release of better-than-expected results from grocery giant Shoprite.



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While Massmart's results also came as a pleasant surprise, the general retailers' index only managed to narrow its losses to 0.11%.

Shoprite reported sales growth of 14% in the six months to December 31 to R71.3bn and a rise in trading profit of 19.2% to R3.91bn. Like-for-like sales, which strip out the effect of new stores, were the strongest they had been in seven years.

The group declared a dividend of 180c, up 15.3% compared with the year-earlier period. Importantly, the company's trading margin grew to 5.48%, from 5.2% the previous year.

Massmart recorded a 7.7% rise in total sales in the year ended December 2016 to R91.3bn. Trading profit, excluding foreign exchange movements and interest, rose 12% to R26bn. In SA, food and liquor sales grew 11.7% and general sales increased 1.5%.

Expectations for both retailers had been for subdued results against the backdrop of low growth, the decline in discretionary spend, increased competition, credit regulations and high inflation. Despite the short-term boost provided, the outlook remains murky.

PSG Wealth analysts said the general retail sector remained competitive with businesses likely to compromise margin to maintain market share given all the new market entrants.

For food retailers, the analysts said: "We remain underweight, the consumer staples sector as a whole, given valuation concerns."

With forecasts for GDP growth of about 1.3% in 2017, the overall retail sector will remain under pressure.

Source: Business Day

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