BIZCOMMUNITY

Retail shares fall after dull Shoprite results

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18 Jul 2013

Shares of SA's retailers slumped on Wednesday (17 July), taking their cue from a disappointing trading update from Shoprite Holdings, which underlined the extent of the consumer spending slowdown in Africa's biggest economy.

SHOPRITE

As the country's main engine of growth, consumer spending accounts for about 65% of gross domestic product, and a slowdown would have a marked effect on the growth outlook for SA.

Analysts say high unemployment and slow income growth have checked household expenditure, already crimped by soaring utility costs and rising debt.

On Wednesday (17 July), the JSE's general retailers index shed 2.8%, with Shoprite down 4.79% to R182, Woolworths falling 3.43% to R64.22 and Massmart shedding 4.31% to R168.51.

The slowdown in unsecured lending, which had given retail sales a significant boost over the past three years, is expected to be one of the major contributors to the decline in spending.

Shoprite, SA's largest supermarket chain, said total sales growth declined to 10.4% in the six months to end-June, compared with 13.8% in the first half.

Disposable income

Growing pressure on consumers' disposable income is reflected in the slowdown in sales in the South African supermarket unit, Shoprite's largest division in the group, which grew by 9.8%, compared with 12.9% previously.

The group's numbers were "pretty disappointing", 36ONE Asset Management equity analyst Daniel Isaacs said.

"If you take into account the second-half growth against the first half's, you can see a real slowdown coming through. Basically, this shows there is a lot of consumer pressure. That has been a theme for quite a while already - consumers are facing pressure from rising expenses, lower wage growth and a slowdown in unsecured lending. We are going to see more of this across more of the retailers," Isaacs said.

Shoprite increased total turnover 12.1% to about R92.7bn for the 12 months to June compared with the corresponding period last year. Growth on a like-for-like basis was 5.8%. Internal food inflation averaged 4.3% compared with 4.9% in the year before, Shoprite said.

Africa sales

The retail group said that when Africa's sales are converted to rands, the turnover of the 153 supermarkets that the group operates outside SA increased by 27.9% compared with the previous period. Taken at constant currencies, these operations grew 21.2%.

"It's a decent performance, but you have to take into account that they can grow their numbers by adding more space, which is a lot easier to do over there, than here. It does only account for 10% of their operating profit, so it's not massive to the group," Isaacs said.

With relatively low product inflation, the furniture division grew turnover by 4.7%.

PSG Konsult portfolio manager Drikus Combrinck said the group's update implied that it was going into an even more difficult period over the next six to 12 months.

"Shoprite is an expensive share. Investors are asking a lot in terms of the valuation and what they are giving at the moment is not enough to justify the valuation. This has dragged the whole sector down because it's a macro story, it's not Shoprite-specific," Combrinck said.

Massmart's trading update last week was equally bleak. The Walmart-owned group said that same-store sales rose 5.5% in the 26 weeks to June, compared with a 7.3% increase in the half-year to December.

Source: Business Day via I-Net Bridge