

Value offerings enable increased profit

Clicks has maintained its operating margins despite a heavy promotional market and depressed economy.

CEO David Kneale said on Friday that the group had stuck to its strategy of offering value to consumers.

"We've always been a value retailer and we've tried to stay true to 'At Clicks, you pay less'. Even when it comes to medicine, we endeavour to move customers to lower-cost generic drugs," he said.



Hospital front shops help Clicks grow its footprint

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Prices were competitive and the group had a strong portfolio of private-label products in which customers found value, Kneale said.

"We have also had great success with our mix and match, where shoppers have access to over 2,000 products."

In the six months to February, Clicks reported a 13.5% increase in diluted headline earnings per share to 232c.

Group turnover increased 8.5% to R13.1bn and operating profit was 14.7% higher at R840m. The group operating margin expanded 30 basis points to 6.4%.



Screengrab from the Clicks health hub.

Kneale said a little more than two-thirds of sales had come from the 6.5-million active Clubcard members. The Clicks chain increased sales by 13.1%.

Comparable store sales grew by 8.4% with selling-price inflation of 4.8%.

"Clicks Clubcard is SA's most generous loyalty programme.

"It is an enormously powerful weapon that our customers love and that we will continue to improve and fine-tune," Kneale said.

Sanlam Private Wealth investment analyst Renier de Bruyn said the results had met market expectations. It was "hard to find anything negative" within them.

Clicks was highly cash generative and a well-managed business, he said.

"It has consistently gained market share across most categories over recent years. The pharmacy market in SA is consolidating away from independent pharmacies following legislation changes in the early 2000s that allowed corporations to own pharmacy licences," De Bruyn said.

The pharmacy industry was also benefiting from structural growth drivers, including an ageing population, a higher chronic-disease burden and the shifting demands of a rising middle class.

"The nondiscretionary demand nature of the majority of Clicks' sales has also made it somewhat more resilient in a consumer downturn such as the one we are currently experiencing. Pharmacy dispensaries in SA are highly regulated and selling prices [are] capped.

"However, the pharmacies remain important attractors of footfall, enabling the profitable cross-sell of front-shop health and beauty merchandise," DeBruyn said.

In the period under review, Clicks had been on point with its promotions, he said. "However, the impressive performance from Clicks over the past few years has lifted the share price as well as raised the future expectations of the market. The high rating of the share price makes it vulnerable to any unexpected operational disappointments in the medium term," De Bruyn said.

Kneale said Clicks was on target to grow earnings for the rest of the year despite the pressures on the consumer.

Source: Business Day

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