

## Share-price rises point to interest in retail sector

Prospects for the retail sector may be dismal in 2017, but that has not stopped investors from piling in. The general retailers index has gained 4.2% in the year to date, while stocks in the food and drug retailers index have added 8.13%. Both are outpacing the all share, which is up 3.29% so far.



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IG's senior market analyst Shaun Murison said the retail sector should not be avoided at present and value had to be viewed on a case-by-case basis. The food side of the sector provided a defensive aspect to an investment, although profitability and margins were far smaller than those realised in the sale of apparel and merchandise. However, one had to be cognisant of the competitive nature of apparel retail, especially in women's clothing, Murison said.

"Recent results would suggest that Shoprite and Foschini may be among some of better-looking counters in the sector at present, with good earnings growth being reported.... Shoprite is performing well into the rest of Africa, especially in jurisdictions where others have failed, like Nigeria."

Cratos Wealth senior analyst Ron Klipin said he, too, would bet on Shoprite in food retail, but the sector as a whole was one to avoid due to the major pressures on consumer spending in SA.

"I would favour food over apparel as it is a basic necessity, versus apparel, which is a nice to have. However, certain niches in both markets are likely to be relatively good investments.

"These include Shoprite servicing the lower LSM markets in addition to a substantial footprint in Africa - where there are some highly profitable operations - and Woolworths, which is relatively immune to the downturn in spending," he said.

Murison said that with the nervousness around the rand, cost inputs were at risk for many of the sector constituents.

"If this is a concern, investors might consider those retailers with rand-hedging attributes such as Steinhoff, Foschini and Truworths. Of course, with Foschini and Truworths, you are also taking a view on the British pound... Steinhoff, on the other hand, adds an interesting global diversity," said Murison.

*Source: Business Day*

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