Lewis shares unaffected by quarterly revenue fall

By Ann Crotty

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The Lewis share price held up reasonably well on Wednesday despite the release of yet another grim trading update from a major retail group.

But as earnings for financial 2017 now look on target to be back at the sort of levels last seen in 2005, the share price is set to remain under pressure for the foreseeable future.

Picture: Freddy Mavunda

Revenue for the third quarter to December 2016 declined 7.5% with merchandise sales 5.6% lower. For the nine months to end-December revenue was down 4% and merchandise sales 2% lower.

Management reported comparatively good news on the debtors' front, with collection of the debtors' book remaining stable during the three months.

Trading conditions for the nine months were described as extremely challenging.

"Low economic growth, declining consumer confidence, constrained employment and the continuing impact of the drought in the agricultural sector" were the challenges identified by management.

In addition, credit sales continued to be affected by the affordability assessment regulations. Management said these regulations, which were tightened up in 2016, represented a hurdle in the group's lower to middle-income target market.

The share price did not react to the weak trading update and closed at just more than R37 on Wednesday. The share has recovered from the 12-month low of R30, which it reached shortly after the interim results were released in November.

The share price is supported by the group's commitment to its generous dividend policy; it pays out almost 50% of its earnings in dividends. The share is on a dividend yield of almost 11% and has been attractive for its largely global base of investors.

Analysts say because Lewis is unwinding its insurance structure it is generating surplus cash that can be used to continue financing its dividend policy. The group is likely to report a decline in full-year earnings of about 40% in line with the drop reported at the interim.

Source: Business Day