

Dis-Chem lifts market share

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Dis-Chem, the fast growing healthcare retailer that listed on the JSE late 2016, reaffirmed plans to open 200 stores in the next five years after making strong market share gains in the year to the end of February.



Image credit: *Financial Mail*

In an investment presentation on Wednesday, Dis-Chem financial director Rui Morais said the company had increased market share across all categories. The dispensary business, which made up 36% of total revenue, increased market share from 19.6% to 21.4%, while personal care and beauty, which accounted for 27% of turnover, pushed market share to 15% (from 12.4% last year).

The biggest gain by DisChem was in the healthcare and nutrition niche, where market share was estimated to have grown from 38% to 43%.

Encouragingly Dis-Chem's growth - turnover was up 14.7% to R17.3bn - did not require margin sacrifice. The investment presentation showed gross margins rising to 24.4% (23.45%), and the operating margin fattening to 6.5% (6%).

Operating profits, boosted by 11 new store openings, came in 24% higher at R1.13bn. Headline earnings and adjusted headline earnings came in at 75c a share and 69c a share respectively - a "drop" of more than 60% because of a marked increase in the weighted average number of shares in the financial year following a restructuring ahead of the JSE listing.

Dis-Chem said if the number of shares had remained the same across both the 2017 and 2016 financial year, then headline earnings and adjusted headline earnings would have increased 22.5% and 30.8% respectively.

Jiten Bechoo, the food and retail analyst at Avior Capital Markets, said Dis-Chem's performance was commendable – particularly the market share gains, margin expansion and improved cash generation.

"Going forward, with higher interest expenses in the base and scale continuing to flow from maturing stores and new stores, the company should improve margins further."

Bechoo said Dis-Chem – like rival Clicks – would generate plenty of net cash in future years. "This should be sufficient to improve the dividend payout, or do share buybacks."

Dis-Chem's store numbers reached 108 at the end of the financial year, with CEO Ivan Saltzman predicting that 112 stores would be open by the end of the first half of the new financial year and 117 stores before Christmas in 2017. He said there could be 129 stores open at the close of the financial year to February 2018.

Saltzman said an additional 20 stores were under final negotiation and would be opened predominantly in financial 2019. He believed Dis-Chem was on track to reach 200 stores by 2022-23, adding that space and "space maturity" were still the main structural drivers of growth.

Saltzman also said Dis-Chem was looking at alternative store formats with the successful opening of a 670m trading store. This will be stores of between 330m and 600m, located mainly in the convenience-focused centres.

Source: Business Day

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