Mr Price cuts its cloth to suit a higher share price

Retailer Mr Price's turnaround strategy has paid off as the group expects earnings per share to climb as much as 25% for the 26 weeks to September 2017.

Credit: [Freddy Mavunda]

The share price jumped 11% to R169.99 after the announcement. The momentum continued for most of the trading session, with the share eventually closing at R192.25.

Diluted headline earnings per share are expected to rise between 421.4c and 439c.

Portfolio manager at Gryphon Asset managers Casparus Treurnicht said although the company did not give much information, it was clear that the guided range was significantly higher than the market expected.

"After Truworths and TFG came forward last week there might be a combination of short positions being covered and a sigh of relief," Treurnicht said.

Mr Price's share price recovery came after it lost 20% in 2016. The main losses came in August 2016 when the company lost 16% in one day after releasing a disappointing trading statement. The share price has since gained about 20% in

2017.

In its 2017 annual results presentation in March, Mr Price CEO Stuart Bird said that the strategy going forward would focus on improving the quality of merchandise while applying an everyday low-price pricing strategy and integrating technology to improve operations and customer experience.

Much like the rest of the retail sector, Mr Price has been affected by weak and declining consumer spending, which continued into the first half of 2017. The retailer's recovery has been boosted by a number of factors.

Equity analyst at Vele Asset managers Matthew Zunckel said that judging by the positive trading statement the recovery of Mr Price was bumped up by a change in its procurement model, which was the main driver of growth.

The company previously faced issues of procurement and the quality of its merchandise was a constant complaint from consumers in 2016, among other misgivings.

A report on the retail sector conducted by advisory firm EY found that retailers were changing supply chains to create more flexibility and quicker turnaround, while retail customers were shifting expenditure habits.

Portfolio manager at Cratos Wealth Ron Klipin said that in a tight fiscal environment, affordability had become the main theme among consumers and Mr Price continued to dominate that market.

Zunckel said the company "continues to fill the niche gap for lower LSM groups".

Being a cash business in a climate in which credit growth is rather dismal and unemployment has reached record levels, selling for cash has given Mr Price an advantage.

Klipin said previously that there was a paradigm shift among consumers to stretch their rand as far as they could.

As people were less inclined to buy on credit, it would benefit cash retailers such as Mr Price, but would hurt others that operated largely on credit, such as Truworths.

Mr Price has a market capitalisation of R43bn and also owns Miladys, Sheet Street and Mr Price Home.

Although the second half of 2017 gave some slight relief for the sector, it has remained under pressure.

Analysts forecast that clothing retailers are likely to see single-digit growth in the short to medium term as low sales, worsened by weak economic growth and international competitors entering the market, continue to put the sector under pressure.

Source: Business Day