Edcon posts good results despite challenging Q1

Edcon reported improved cash generation for the quarter and substantially maintained gross profit but retail sales were behind expectations across its 1151 stores and costs negatively impacted the adjusted EBITDA.

"Trading for the first two months was tough but returned to acceptable levels in June," said Jürgen Schreiber, CEO of Edcon.

The quarters' results consisted of two distinct trading periods. Retail sales for the first two months of the quarter decreased 0.6%, compared to a 7.8% increase in sales for June as the weather turned colder. Implementation of various strategic and operational initiatives remains at an early stage, affecting the Edgars division. Discount division performance on a like-for-like basis remains fundamentally on track, despite the weakness in the first two months.

Edgars to get new brand

Schreiber said an important development for Edgars, which will only make an impact in the next financial year, is the announcement that Edcon, together with House of Busby has been granted the exclusive South African franchise rights for Topshop Topman, the UK-based retail fashion phenomena.

"This inclusion is an important pillar of the chain's overall revised strategy but needs to be seen in the context of the various initiatives being undertaken to reinvigorate the stores and attract customers," Schreiber said. "Rollout will initially be through stand-alone stores, later complemented by shop-in-shops, exclusively within key stores."

This division grew retail sales by 1.9% for the quarter, helped by the conversion of certain Discomstores to Edgars Active. Same-store sales fell by 2.5%. Edgars was negatively impacted by a weaker first part of the quarter with like-for-like sales decreasing 4.9% in April and May but increasing 1.7% in June. Aggressive markdown activity in the latter part of the quarter decreased gross profit from 42.5% in the prior comparative period to 41.1%.

Discount division, CNA

Same-store retail sales in the discount division increased 5.1% for the quarter, with only a 1.4% gain in April and May before a 14% increase in June. Discount division experienced market share gains in several important categories and reported improvements in clothing margins, pushing gross profit margins up to 34.0% in the quarter, up from 33.2% a year earlier.

Retail sales increased 1.9% in CNA, increasing gross margins to 33.9% from 33.2% in the first quarter 2012.

Store card sale finalises this year

Credit and financial services operating profit (reflected in continued and discontinued operations) increased by R18m, or 9.3%, to R212m pre-tax in the first quarter, following higher profits from the insurance joint ventures.

The group's agreement to sell its private label store card portfolio to Absa for approximately R10bn and the establishment of a long-term strategic relationship for the provision of credit to its customers, is expected to close before the end of the calendar year.

Net financing costs decreased by 3.2% to R688m in the first quarter, with R197m spent on capital expenditure, in line with expectations.

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