

Cashbuild aims to push ahead with expansion

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Cashbuild, the bakkie builders' go-to store, will not retreat from its expansion plans despite warning that trading will remain extremely tough.



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Releasing results for the year ended-June on Tuesday, 29 August, Cashbuild posted a 12% rise in revenue, mainly due to the inclusion of the P&L group that it bought for R350m in 2016.

But revenue for stores that existed before July 2015 dropped 2% and selling price growth was capped at just 2%, while operating profit inched up 1%.

Cashbuild's shares have retreated almost 18% after hitting a high of R460 on October 7 2016 and Vunani Securities analyst Anthony Clark was surprised the market pushed its stock there at all, given Cashbuild's warnings back then that trade was slowing.

Italtile, which competes with Cashbuild through its Top T brand, was also circumspect about trading prospects in 2016 and Clark said: "Italtile saw the writing on the wall, reduced stock and built up its cash position. But Cashbuild hasn't been as

aggressive in managing an expected downturn."

CEO Werner de Jager said he disagreed with Clark's assessment. "If you look at our stock levels and just go work out an average per store, we are very comfortable with [them]."

Cash on hand grew 7%, to R801.4m and the group maintained its dividend cover of two times, at 390c a share. While Cashbuild's reserves dwarf those of Italtile, the latter posted a 47% increase in cash on hand in its year to end-June, to R511m.

Clark was concerned about the "significant increase" in competition for bakkie builders' cash - especially companies such as Buco, Build It and Builders Warehouse who are aligned to powerful backers in the form of Steinhoff, Spar and Massmart, respectively. There are also about 3,000 independents in the hardware sector.

De Jager said the intensification of competition would not deter Cashbuild from its roll-out of stores.

The group has opened three new stores since year-end, taking its total to 300.

It said it planned to open 10 Cashbuild and five P&L stores by the half-year.

"We know our market and we know our model works where we put it down. We certainly have no concern about [overtrading] specifically.

"We know where there are still areas that we need to put stores down and even though the competitors are in those areas, we will still make ends meet. So, we're not pulling back," said De Jager.

Still, revenue for the first six weeks of Cashbuild's new year is not looking promising: it has grown 6% and De Jager said that "even if you do sustain your gross margins, your costs will catch up and it will be another tough year for us".

Source: Business Day

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