

# Analysts not really impressed with Massmart sales

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A sales update from Massmart Holdings, whose portfolio includes the Game, Dion Wired and Builders Warehouse chains failed to impress analysts on Thursday, with the group saying sales for the 26 weeks to December 23 increased to R36.1bn, representing growth of 14.6% over the prior period.

In November, Massmart said it expected Christmas sales to grow at the same rate it had experienced throughout the financial year.

Comparable store sales rose by 7.3%, Massmart said on Thursday, 10 January 2013.

Chris Gilmour, an analyst at Absa Investments said the group's numbers for the period were "reasonable".

"They're not bad, they're okay. It's only up until 23 December, so it doesn't include Christmas. I would have liked to have seen that final week, as with all retailers the week leading up to Christmas really is incredibly important. It's also difficult to make any meaningful comparisons because we don't have, say, Shoprite out for example," Gilmour said.

Retail trading conditions are expected to err on the side of moderate this year, as consumers trade-down as a result of escalating utility costs, higher inflation and a lack of employment creation in Africa's biggest economy.

Abdul Davids, head of research at Kagiso Asset Management, said Massmart's turnover for the period was lower than expectations for the full financial year, while its average merchandise price inflation of 3.7% was in line with expectations given the merchandising mix.

With respect to divisional growth, Massmart said Massdiscounters grew 7.7%, with inflation of 0.8%, Masswarehouse saw an advancement of 23.4%, with inflation of 3.4%, Massbuild gained 10.0%, with inflation of 2.7% and sales at Masscash increased 15.0%, with inflation of 6.4%.

"Volume growth across the four divisions has slowed significantly compared to 2011 with Massdiscounters (Game) in particular struggling to maintain positive volume growth. The lower than expected total sales growth percentage and continued low inflation supports our view that operating margins are likely to remain under pressure as Massmart aggressively positions itself in the highly competitive food and grocery retail space," Davids said.

The group, which was acquired by US-based Walmart last year, has started expanding into the food business in competition with Shoprite and Pick n Pay. Massmart targets the living standard measures (LSMs) seven to 10 bracket

through its Makro division's existing fresh food offering and Foodco - a concept store and supermarket within Game stores.

Massmart's foray into food retailing is also aimed at consumers in LSMs two to six through its Cambridge Food stores. In December, Game MD Jan Potgieter said the company had introduced a wide range of dry goods to complement its grocery and fast-moving consumer goods offering.

"My concern with the whole Massmart/Walmart thing at this point in time is that it's working out awfully slowly. I would have expected to see more. I guess they've been hamstrung until very recently because of the court hearing, but I would have thought that Walmart would have really flexed its muscle by now and that's not apparent in these results," Gilmour said.

Massmart's results for the 26 weeks to December 2012 are due on 28 February.

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