

Edcon returns to profit in June quarter

SA's largest clothing and footwear retailer Edcon swung into a trading profit in the first quarter of its new financial year despite a deterioration of the operating environment, says CEO Bernie Brookes.

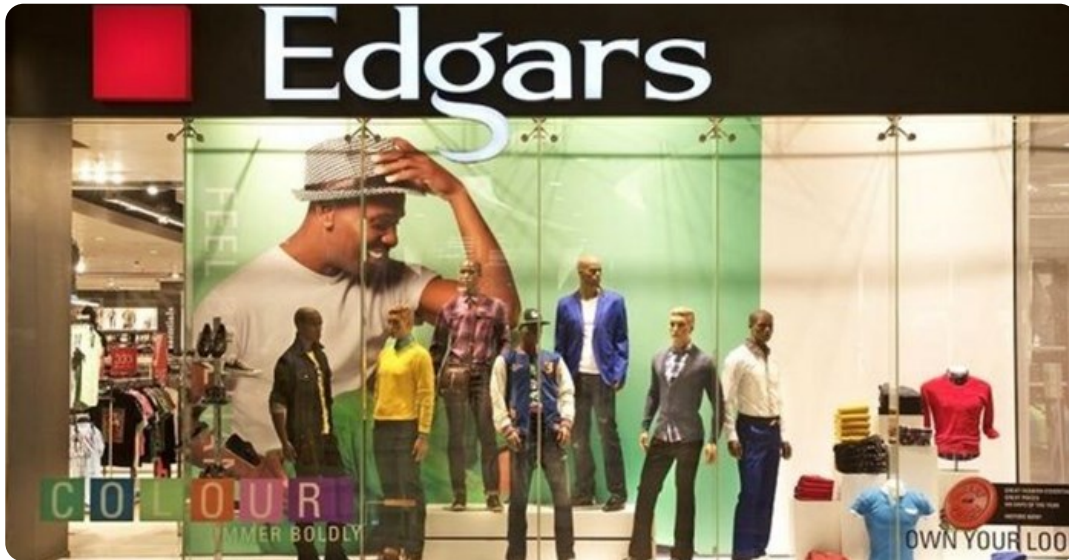


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"Our strategic repositioning and transformation process has started indicating the green shoots of change," Brookes said.

"Edgars and Jet delivered better customer service stores, an improvement in retail sales performance, and there was excellent cost containment throughout Edcon," he said.

In the first quarter ended 24 June, Edcon's trading profit jumped 165.4%, to R89m, from a loss of R136m. Overall same-store sales fell 1.4%, but the group's main chain, Edgars, reported an increase in like-for-like sales of 1.6%.

Edcon's first-quarter results follow on the heels of Truworths' full-year results. As far as the trading environment was concerned, the two retailers painted a grim picture but were hopeful of a change in fortunes in the year ahead.

However, Old Mutual Investment Group retail analyst Meryl Pick cautioned against an overly optimistic outlook. "In 1994, 3 of the population was categorised as LSM 6-10. Ten years later, this segment had doubled to represent 60% of South Africans.

"All retailers were lifted by this rising tide. This tide is now receding as the pace of growth in employment and social grant payouts wanes, making growth in the retail sector going forward more of a challenge." Pick said credit sales would also grow at a slower rate.

Edcon said its retail credit sales decreased 7.4% in the period under review, while cash sales fell 8%. The retailer said this was partly to do with the fact it was operating out of 200 fewer stores, including the exit of the Legit business.

The in-house debt book, which extends credit to "medium- to high-risk customers", grew to R569m, from R177m at 25 June 2016. Credit sales contributed 38.8% of total retail sales in the quarter, from 38.6% in the year-earlier period. The store closures came with some savings, with Edcon's total store costs decreasing 8.5% to R1.6bn.

Brookes said the remainder of the year would be focused on the continued roll-out of strategic initiatives and preparing for the Christmas period. About half of Edcon's annual earnings are generated in December.

"It has been pleasing to note that Edcon's employee retention has improved markedly following the stabilisation of the

balance sheet and the implementation of the strategic transformation process.

"Additionally, following the appointment of Grant Pattinson as chief operating officer and CE designate from early 2018, the transition of company leadership is progressing seamlessly."

Woolworths will release its full-year results later this week.

While retail sales data from Statistics SA have [shown an improvement](#), numbers out of consumer-facing companies have shown strain.

June's retail sales grew 2.9% from the same month in 2016, taking its growth for the second quarter to 2.2%, Statistics SA said. The monthly rise from May was 0.2% against an expected monthly contraction of 0.3%.



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