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Truworths to grow earnings despite tough times

South African clothing retailer Truworths International's CEO Michael Mark expects tough times ahead, but is confident that the group will achieve real earnings growth for the year to end June 2009.

Mark told an investor presentation on Thursday that the group would continue with its share buy back programme when it saw opportunities. He also said that he believes there are acquisition opportunities in South Africa, "but you must wait you moment."

During the first half the group repurchased five million shares at an average price of R29.06 per share for a total of R147 million. A total of 29,5 million shares - 6.5% of total shares in issue - are now held as treasury shares.

Since the inception of the repurchase programme in 2002, the company has spent R1,2 billion on share repurchases and 43,4 million shares purchased at an average cost of R10.95 have been cancelled.

For the 26 weeks to end December 2008 the group reported a 16% rise in diluted headline earnings per share to 181.3 cents as it delivered a strong all-round performance in demanding trading conditions.

Merchandise sales were up 10% to R3,3 billion compared to the 27 week period in the prior financial period and up 14% excluding week 27. Comparable store sales growth was 7% and product inflation averaged approximately 6%.

The group's operating profit was up 11% to R1,152 billion.

Mark said group's retail sales for the first seven weeks of the second half of the 2009 financial period reflect a growth of 2 on the prior comparable period, however, management does not expect retail sales to continue at this level.

While the decline in interest rates and lower fuel costs are positive for consumers, the retail trading environment remains difficult and management does not expect conditions to materially improve over the remainder of the 2009 period.

The group currently has 1,822 million active accounts - up from 1,775 million a year ago, but Mark says he believes there are around 7,5 to 8 million credit worthy customers in the country - so while the group has a high percentage of credit customers, "there is quite a lot of runway left" as the account base keeps growing given the number of young people emerging in South Africa as consumers.

He added that only 41% of people who apply actually get credit and that is partly to do with their own scorecard and partly due to the National Credit Act calculations.

In the first half trade receivable costs increased by 8%, compared to a 61% increase in the prior period. Net bad debts ar the allowance for doubtful debts, each as a percentage of gross trade receivables, were 11.9%.

However, the additional interest income earned on the debtors' book during the period more than offset the increased net bad debts and associated costs.

The Group maintained the qualifying payment percentage of 90% - one of the highest in the industry - necessary for customers to avoid delinquency, the group said.

Management is satisfied with the improved quality of the debtors' book, he said.

Mark added that the group continued its support of South Africa's local manufacturing industry, purchasing in excess of 5 of its products from the local market. Imports come mainly from Asia.

During the first half, trading space increased by 11% relative to the prior period following the opening of 17 Truworths, 18 Identity and 2 Uzzi stand-alone stores and the closure of 6 Truworths stores.

At the end of the period, the group had 475 stores.

The group will continue to invest in the longer term growth of the business and plans to increase trading space in the seco half of the 2009 period by opening 20 new stores across all brands and refurbishing or expanding a further seven stores.

The group is confident of achieving real earnings growth for the financial period ending June 2009 and remains committe achieving the financial targets detailed in the 2008 annual report.

Mark added that the group was on track to reach all its targets by June 2009.

Mark said times are tough and he expects them to remain tough for some time.

"We have always been frugal in good and bad times. We have expanded our business in good and bad times - but not crazily. We expect real earnings growth," he said.

He added that despite better than expected Christmas sales for retailers and a better January and February, the group ha planned conservatively.

"If the good things happen we will enjoy them. We have taken a conservative view and if things turn out better, then that's a celebration," he said.

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