Lower deflation in Zimbabwe boosts TM Supermarkets

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19 Aug 2013

Turnover at Pick n Pay's Zimbabwean joint venture TM Supermarkets grew by 5% during the quarter to the end of June as the supermarket chain continues to boost its presence in the country by adding more outlets.

By increasing the number of its stores, TM Supermarkets is hoping to compete with rival operator OK Zimbabwe.

Although experts say retail margins dropped by between 3% and 5% from a high base of about 20% in the past four years, operators still believe the sector presents significant opportunities, hence a rush to revamp outlets and introduce new stores.

Analysts said last week that the 5% growth in turnover for TM Supermarkets had been aided by declining inflation in Zimbabwe. The inflation rate in the country has been projected to close this year at about 3%, down from an earlier projection of 5%, with officials attributing this to a weaker rand.

Despite a relatively stable inflation outlook, economic difficulties that Zimbabwe encountered before and after recent elections in the country could put pressure on margins for most retailers. President Robert Mugabe and his Zanu (PF) party won the elections amid allegations of vote manipulation.

"Inflation has been controlled within the target range and, thanks to a weaker rand, the retailers are importing stock using a currency that is weak. But the overall picture remains that of a struggling economy unable to function properly and dominated by high imports," said economist Johannes Kwangwari.

New outlets

TM Supermarkets is revamping its outlets in Harare, Gweru and Masvingo, the company said. Two more outlets are planned to open before the end of the current financial year, a development that is expected to further strengthen the group's retail presence.

"Trading in TM Supermarkets was within expectations for the quarter ended June. Turnover grew by 5% compared with the

corresponding period in 2012," Meikles Africa said.

Meikles has a 51% stake in TM Supermarkets.

It said gross margins were similar to those achieved in previous trading periods. Although there was a marked economic slow-down ahead of the Zimbabwean elections, Meikles said the election period did not disrupt business.

"However, business across the board slowed down, while these processes (referendum and elections) were underway. The markets became more illiquid; turnover on the stock market reduced, bank deposits decreased and it was reported by Confederation of Zimbabwe Industries that capacity utilisation dropped to 45% from 55% in 2012."

Earnings before interest, tax, depreciation and amortisation in the supermarkets division jumped more than 50% to US$11.2m during the year to March.

Looking ahead, Meikles said it was working on various initiatives to safeguard and improve its performance. "We expect the new government to play its part by putting in place policies that promote a conducive economic environment to attract both local and foreign investors," the company said.