Grocers could hold value in tough times

By Michelle Gumede

19 Dec 2017

Analysts warn that 2018 is going to be a challenging year for retailers in general, but they expect food and grocery retailers to hold their value despite a tough macroeconomic environment.

The 2017 financial year was characterised by sluggish economic growth with weakened consumer spending, a volatile currency, economic downgrades by credit ratings agencies and foreign competitors muscling in on the local market.

While retail sales slowed in the period (from October) leading up to the festive season, food and pharmaceutical retailers continued to outperform other retail sectors.

The value of local food retail is estimated at R520bn to R550bn a year. The dire macroeconomic climate has presented opportunities for cheaper and more affordable food retailers, as more South Africans tighten their belts.

Among the big four of Spar, Pick n Pay, Shoprite and Woolworths, the latter has suffered the bloodiest onslaught on its share price, which has tumbled 19.52% so far in 2017.

Woolworths's share price fall from grace has been underpinned by slow volume growth and a sluggish performance in Australia. David Jones, the Australian upmarket department store, is still a noose around Woolworths's neck, says Cratos

Wealth Management analyst Ron Klipin.

The Australian market has been anything but kind to the retailer. Competition there is stiff, while the company itself has little critical mass to take on that market. Klipin says the management's plans to turn it around will take up to a year to start showing positive results.

Woolies in eye of storm - chairman

29 Nov 2017

Food retailer Spar has managed to successfully penetrate and grow in foreign markets. Along with its liquor division, Tops, the company's geographically diversified business model has been its saving grace. Its expansion into the UK and Ireland has catapulted Spar's growth, but its Swiss operations have shown a slower turnaround.

Spar's headline earnings per share dropped 6.6% to 952.5c owing to the effect of additional share issues for the Swiss acquisition and a broad-based empowerment scheme. Its latest financial results revealed a rather dissatisfying performance in SA. A slowdown in sales exposed the group to cost pressure and resulted in net margin contraction, CEO Graham O'Connor says.

Gryphon Asset Management analyst Casparus Treurnicht says that after Spar's results announcement in November, the group was on a 18.1 times price-earnings ratio and 4% dividend yield, which was not particularly cheap. Risk remained in all the regions in which it operates. The group's price-earnings ratio is now 20.89. Spar's share price is marginally up at 0.22% so far in 2017.

Retail giant Shoprite's share price has climbed 21.93% so far in 2017, having started the year trading at R172.95. It closed at R210.69 on Friday. The Checkers division has held its own among higher LSM consumers, taking on Woolworths and Spar with the introduction of prepared convenience foods. Its fast-food outlet, Hungry Lion, also took some market share from established fast-food outlets.

Close competitor Pick n Pay has been conflicted with internal issues. When CEO Richard Brasher took the reins, Pick n Pay had several issues to deal with, mostly related to an outdated distribution and logistics network. Treurnicht says much has been dealt with, but while Pick n Pay had to bring margins up to scratch, Shoprite was in a much better position to power ahead and take market share.

"I think it's also become more difficult to focus on internal issues over the past two years when the consumer environment turned against retailers," he says, adding that Pick n Pay's voluntary severance programme indicates that it continues to take fat out of the business.

Source: Business Day