Foschini sees improved earnings

The Foschini Group, which has moved decisively into the more upmarket segment as it aims for a 50-50 split between credit and cash sales, is expected to report its half-year results tomorrow.

By Zeenat Moorad 5 Nov 2014

Debt from store cards, microloans and unsecured credit has crimped disposable income, particularly of those in the lowe middle income segment. There is scant respite on the horizon from lower interest rates, higher wages or easier credit.

The company - whose retail brands include Totalsports, Fabiani and @home - expects headline earnings per share from continuing operations for its half year to be between 5% and 8% higher than those reported for the previous correspondin period.

To manage its books through the tough credit cycle and prevent impairment rates rising any further, Foschini and rival Truworths (which has 71% of sales on credit) have already made it tougher to get credit at their stores. Foschini's shift aw from being a mass-market credit retailer will render the group more defensive in tough credit cycles, such as SA is in now by reducing the effect of card defaults.

Basic earnings per share for the group's half year are seen to be between 33% and 36% higher than last year. This is largely as a result of the inclusion of the profit of about R270m on disposal of consumer finance business RCS Group.

France's largest bank, BNP Paribas, in August bought the private label retail-card joint venture from Foschini and Standar Bank. Foschini established RCS in 1999 and sold 45% to Standard Bank in two tranches in 2005 and 2006. The deal allov for the group to reduce its overall gearing levels and focus on its core retail business.

RCS, which was established in 1999, has more than 1-million cardholders and serves a network of more than 18,000 retai outlets, including Massmart's Game, Spitz, and Tiger Wheel & Tyre.

"RCS started to cloud what our balance sheet looked like ... it sucks a lot of capital ... people were starting to think we wer financial institution and not a retailer," CEO Doug Murray said in August. "We saw the opportunity to start it because we have expertise in lending and it has proved to be a success, but at the end of the day that business has to grow. It was noncore to us and at some stage we had to move it on."

Source: Business Day