

Shoprite's strong results despite consumer cut backs

While consumers tighten their belts as living costs steadily rise, personal debts remain high and jobs are in short supply, Shoprite's turnover rose by 12.3% in the quarter to September.



Momentum's Wayne McCurrie says he doubts if the improvement in Shoprite's results are a result of higher consumer spending but driven more by its gaining market share from other retailers. Image: Twitter

Wayne McCurrie, a Senior Portfolio Manager at Momentum Asset Management, said Shoprite was stealing market share from Pick n Pay. "There is no way consumers have got more disposable income in a single reporting period," McCurrie said.

"Sales at Shoprite's local supermarket unit increased 11.9%, which was significantly better than expected," said Sasfin Senior Retail Analyst Alec Abraham. "What it reflects is their aggressive store opening programme. The resolution of the strikes that hamstrung parts of the economy may also have helped," he said.

Shoprite recorded more than R1bn in lost sales during the five-month platinum strike, while Walmart-owned Massmart's stores in towns immediately adjacent to the mining unrest noted significant sales declines.

Shoprite Africa disappointing

"The disappointing thing for me was Shoprite's Africa division, which was up only 15.9% - a lot lower than what we saw last year, of 24%," Abraham said.



Sasfin's Alec Abraham says that Shoprite Africa's performance in Africa was disappointing but improved results in South Africa may, in part, reflect the settlement of the mining strike in platinum belt towns. Image: LinkedIn

The Africa division was hit by the sale of the group's Tanzanian business to Kenyan supermarket chain Nakumatt and the loss of a store in Angola that burned down.

The highly competitive market conditions in which Shoprite's furniture division traded remained virtually unchanged, but the group increased turnover 11.5%.

Shoprite said it expected "fair" trading conditions in the run-up to Christmas, though it was difficult to predict festive season consumer spending patterns.

"I think the South African consumer is under severe pressure and if you look at the whole retail environment, I doubt Shoprite's Christmas sales will be more than one percent better than last year," McCurrie said.

In an aggressive bid to gain market share, the group will open a further 27 new supermarkets before the end of December. Over the past five years, Shoprite, which targets the middle-to low-income bracket, has grown store space about 40% - more than any other retailer.

The group in August reported its slowest annual profit growth in 15 years as spending on information technology, as well as higher rentals at new stores and increasing electricity costs, increased operating costs.

Source: BDPro via I-Net Bridge

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