SA retail industry outlook and results

Source IG Shaun Murison

Mr Price

Trading Update for Q3 2019 and the 9 months ended 29 December 2018

Salient features

- Group retail sales & other income +5.8% (9 months)
- MRP Apparel +0.4% (3 months)
- MRP Sport +12.7% (3 Months)
- Miladys 0.2% (3 months)
- MRP Home +4.9% (3 months)
- Sheet Street +1% (3 months)

The Mr Price Group saw the clothing and apparel divisions under pressure in the third quarter of FY19, hampered by lower Black Friday sales which were impacted by the group's decision not to over discount and compromise margins for the event. There was a gross margin improvement for Mr Price in the third quarter, although the group now carries a high level of inventory moving into the final quarter of the financial year. A key focus for the group in Q4 2019 will be to clear the excess stock and so it appears unlikely that in the short term the improved margins alluded to can be maintained. MR P Sport was the standout performer within the group, managing to produce double digit growth over the reporting period.

The group expects a challenging 4th quarter of FY19. Trading on a price to earnings multiple of 18, we feel that the company may be expensive at current levels, trading ahead of fair value at present.

Woolworths

1H 2019 Sales update

Salient features

- Headline earnings per share expected to be between 7.5% and 12.5% lower than prior years comparative period
- South Africa clothing sales -2%, food sales +6.3%
- David Jones sales +1%
- Country road Sales +2.3%

The 1H 2019 update came in below consensus estimates and was generally considered weak by the market. While the food division has managed to maintain above inflation growth, the higher margin SA clothing, David jones and Country Road businesses have all underperformed over the period to trade (more or less) flat against the prior year's comparative period. The results reflect a constrained South African and Australian client and are suggestive that the turnaround strategy in these operations may take longer than was originally expected.

While Woolworths offers an attractive dividend yield of nearly 5% (historic), contracting earnings suggest that trading on a P/E of 14x might be a challenging multiple for the group to maintain.

Truworths International

1H 2019 Trading Update

Salient features

- Retail sales +2%
- Credit sales +3.7%
- Cash sales +0.3%
- Retail sales for Truworths Africa +2.4%
- Retail Sales for UK operations +0.8% (rand terms)
- Headline earnings per share expected 5% to 7% lower

Relatively flat sales growth and lower earnings show contracting margins for Truworths International over the 6 months to December 2018. While Sales in the group's UK operations increased by 0.8% in rand terms, in Stirling terms this was actually a 3% contraction. The UK Office business remains the challenge for the group and will need to show signs of moving towards profitability to appease investor sentiment going forward.

The update for Truworths, although weak does see the group to be slightly ahead of it peers Mr Price and Woolworths in terms of sales relating to clothing and apparel.

Foschini

Trading Update for the 9 months to December 2018

Salient features

- Consolidated turnover +22.7%
- TFG African turnover +9.5%
- TFG London turnover +3.5%
- TFG Australia comparable turnover +15.6%

The Foschini Group update has exceeded analyst expectations, leading sales growth amongst its sector peers. London sales growth is well ahead of Truworths, while its Australian sales growth has dwarfed that of Woolworths and its African turnover growth Is more than 60% quicker than that of Mr Price (in the last 9 months).

While we feel that retailers of clothing and apparel remain in a difficult consumer landscape at present, recent updates would suggest that The Foschini is perhaps the best in class right now.