BIZCOMMUNITY

Shoprite feels African slowdown

By Michelle Gumede

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Shoprite's non-South African supermarket division recorded negative growth for the six months to December, owing to the effect of lower commodity prices on and the depreciation of currencies of the countries in which the group operates.

The division also had to battle weaker consumer buying power and tough competition in all the territories. Shoprite operates in Angola, Namibia, Nigeria and Zambia.

The group said on Tuesday the economic and trading conditions in territories outside SA remained unchanged, with lower commodity prices and the depreciation of local currencies prevailing. This resulted in a negative turnover growth of 0.4% measured in rand. However, when measured in the various local currencies, sales grew a mere 1.9%.

Equity analyst at Vele Asset Managers Matthew Zunckel said it was to be expected that the group struggled outside SA "given the unsustainably high growth rates of prior years". He said although growth in the rest of Africa had slowed, it should pick up again, "if the recent commodity rally is sustained and those economies improve", particularly oil-sensitive ones like Angola and Nigeria.

Shoprite's woes in foreign territories were compounded in Zambia, when three of its Hungry Lion fast food restaurants were forcibly closed in early January after reportedly testing positive for the bacterium that causes cholera. The disease has killed at least 51 people, and more than 2,000 people have fallen ill in the capital, Lusaka.

However, Shoprite's overall turnover grew 6.3% in the six months ended December - less than half the 14% it reported in the matching period in 2016.

Zunckel highlighted that SA continued to be a strong performer despite declining food inflation and consumers tightening their belts. South African sales grew 7.8%, despite a weak economic climate. The latest Nielson consumer confidence figures highlight that consumers began carrying out cost-cutting measures in the second quarter of 2017.

It revealed that takeaway meals were the first to be reduced by 65% of consumers, followed by less spending on new clothes (63%), while 59% chose cheaper groceries off the retail shelves, which is right up Shoprite's alley.

In the operations update, CEO Pieter Engelbrecht said the company had achieved this growth during a period when internal inflation decreased to 0.4% for the six months, compared with the corresponding period's 7.4%. This was driven mainly by a reduction in the price of basic commodity items. Shoprite's furniture segment, including brands such as House & Home, saw sales jump 10.8%. The group's "other segments" grew 6.7%, driven mainly by the OK franchise division's performance.

Engelbrecht was delighted with this outcome, which he said was more or less in line with the South African supermarket division, given the low internal price inflation.

"The current pace of growth must be viewed in context of the strong turnover growth of 14% in the corresponding six months in the prior year and overall internal price deflation in the last quarter," the retailer pointed out.

Zunckel was upbeat about the outlook, but shareholders will have to wait for interim results on 27 February. "Prospects are good for Shoprite if they can continue to extract margin from the domestic business as supply chain efficiencies improve," Zunckel said.

Shoprite's share price fell 7% after the operating update was announced but recovered to close 3.29% stronger at R220.

Source: Business Day