

Trading conditions squeeze Woolworths' growth hopes

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18 Jul 2017

Investors are lowering their expectations for Woolworths as the outlook for the local retail sector deteriorates.



The company's share price, which has been pummelled, losing 27% over the past year, rose nearly 2% on Friday despite a lukewarm trading update and statement. The retailer's sales were "more or less" in line with consensus, while the earnings guidance was slightly below expectations, said Sanlam Private Wealth investment analyst Renier de Bruyn.

Woolworths said adjusted headline earnings per share for the year to 25 June would fall between 5% and 10%. Hopes had been for a rise in adjusted headline earnings per share of 5%.

"Woolworths' share price has been under pressure over the past three months so the market has already dampened expectations for the group given the tough macro environment," said De Bruyn.

"I think the market was bracing for the softer numbers, given the weak national apparel retail sales numbers released in both SA and Australia over the past few months, as well as TFG and Mr Price Group results released in May," he said.

Woolworths reported a 3% increase in group sales compared with the year-earlier period. It said growth in the second half of its financial year had been affected by "increasingly difficult trading conditions in both SA and Australasia".

The local clothing and general merchandise division grew sales 1.4% with price movement of 6.6%. Sales in comparable stores fell 0.9%, with retail space growing by a net 2.2%. Growth in the SA food division "remained above market", Woolworths said, increasing sales 8.6% with price movement of 8.4%.

The decline in same-store sales in the clothing business was a standout feature of the update and was further evidence of the falloff in consumer spending, Kagiso Asset Management associate portfolio manager Simon Anderssen said.

"This is consistent with the broad deterioration in consumer confidence. An improvement in same-store sales at Country Road is an encouraging signal after the division's disappointing recent performance," he said.

David Jones's sales increased 1% in Australian dollar terms while comparable store sales declined by 0.7%. This was the first full-year slump in same- store sales since Woolworths purchased the department store chain in 2014. Sales of the Country Road Group increased 5.1% in Australian dollars, while like-forlike sales slipped 0.4%.

The guidance for full-year earnings was in line with expectations, Anderssen said. "Our concern is that earnings may have further to fall as the economy drifts along at a very low rate of growth," he said.

Shrinking sales were a big concern for a business with a relatively large cost base, Lentus Asset Management chief investment officer Nic Norman-Smith said. "The majority of local retailers have invested heavily in expanding their store space. This is beneficial in a buoyant environment, but when the cycle turns the negative operational gearing can be highly detrimental to the bottom line."

Source: Business Day

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