

Africa makes winning case for Steinhoff

Steinhoff's African and East European assets outperformed the group's operations elsewhere. The performance of the African assets, in particular, highlighted the case for a separate listing to unlock shareholder value.

By [Colleen Goko](#) 12 Jun 2017



Markus Jooste. Image credit: Financial Mail

In the six months to March 2017, the African business increased its total revenue 25% to 522m. On a like-for-like basis, African revenue increased 4%, a good showing when compared with other domestically listed retailers.

Kagiso Asset Management associate portfolio manager Dirk van Vlaanderen said Pepkor's strong performance in Africa and in Europe helped buoy the group's overall results. "The African business - main consisting of Pep and Ackermans in SA - saw like-for-like revenue growth of 8% as they clearly gained market share against competitors," said Van Vlaanderen. "The aggressive store roll-out strategy in Eastern Europe continues, with constant currency revenue growth of 60%," he said.

Pepkor, the group's discount and value retail concept, reported double-digit revenue growth of 25% to 1.4bn, despite weaker consumer markets. Steinhoff said this underscored the resilience of Pepkor's defensive business model.

In May, Steinhoff announced that it would list its African assets as a separate business. The assets include Unitrans, JD Group, Steinbuild, Pepkor, Poco SA and Tekkie Town. Steinhoff CEO Markus Jooste said at the time that the group would remain invested in these assets "and share in the success of these assets".



BANKING & FINANCE

Nod for Steinhoff Africa assets spin-off

Colleen Goko 19 May 2017

In the period under review, Europe and the UK accounted for 53% of revenue, Africa for 26%, the US for

15% and Australasia 6%.

Sanlam Private Wealth portfolio manager Riaan Gerber said interim results had shown a decrease in earnings per share of 3% compared with the year-earlier period, which was below the consensus prediction.

"This was due to a weaker first-half period for US-based Mattress Firm and the 15% increase in issued shares due to acquisitions of Poundland, Mattress Firm, Fantastic and Tekkie Town, which diluted earnings per share."

He said the market had been expecting some form of recovery from Mattress Firm. "Unfortunately, during this period a lot of the profit was offset by one-off restructuring costs and slow sales. One must take into account that this business naturally performs better in the second half of the year in sales," said Gerber.

Cratos Wealth portfolio manager Ron Klipin said Steinhoff's margins came under considerable pressure as new operations needed time to be integrated into the business, but expectations had been unrealistic.

"The group has been exceptionally acquisitive over the past few years, with the 2016 entry into the US a historic event. This new jurisdiction resulted in major challenges, with a breakdown in the venture with Tempur Sealy."

Klipin said Jooste's quick action in bedding down a deal with Serta Simmons had saved the day, but came at a cost in revenue and "major spend for the changeover".

Gerber said all other businesses within Steinhoff had performed "pretty well and in particular, Poundland".

Gerber and Van Vlaanderen agreed the second half would have some challenges. "The cancellation of the contract with its largest supplier, Tempur-Sealy, will result in further sales disruption in April and May," said Van Vlaanderen. However, management was confident of hitting sales and profit targets in financial 2018.

Gerber said a large advertising campaign for Mattress Firm had been launched. The remainder of the financial year would be the "real test" for improvement within that business. "The market will keep a close eye on the performance of Mattress Firm. Easter also fell into the second half this year compared with last year [when it fell] in the first half. The business's second-half numbers would naturally benefit from this period. Easter weekend is a big period for Steinhoff sales across all its retail business," he said.

Source: Business Day