BIZCOMMUNITY

Bias towards cash sales helps Mr Price survive tough times

By Colleen Goko

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Mr Price Group reported a 17.1% increase in full-year earnings, reaping the rewards of its focus on cash sales in an environment that is becoming credit unfriendly.

Photographer: Michael Ettershank

Mr Price's low exposure to credit proved to be a boon in the face of weak economic growth and a rising interest rate cycle. Retailers whose sales are credit driven have had to contend with changes in the National Credit Act, that have made it more difficult for lenders to extend credit to new customers.

About 83% of Mr Price's sales are for cash. The Foschini Group derives just more than half of its sales on credit, while credit sales at Truworths stand at about 60% of total sales.

Lentus Asset Management chief investment officer Nic Norman-Smith said the company's results were solid in what was becoming an increasingly difficult trading environment.

"On the supply side, competition in the retail sector is increasing with the entry of new global competitors.

"At the same time, consumer demand is under pressure, due to the current lacklustre economic environment."

Norman-Smith said the industry was likely to come under more pressure, as the weaker rand would force retailers to push prices higher.

"Mr Price is clearly faring well and their position in the ‘value’ sector should enable them to benefit from consumers trading down. Whilst the business continues to generate fantastic results, it is going to be difficult for them to justify the current share price rating placed on the stock," he said.

In the 53 weeks to end 2 April, Mr Price, led by CEO Stuart Bird, reported diluted headline earnings per share of 1012.9c, from 865.1c in the year-earlier period.

The group’s cash sales were 9.2% higher, while credit growth rose 2.3%. Total revenue grew 8.4% to R19.6bn, compared with a year ago. The group declared a final gross cash dividend of 419c per share, up 13.7% compared with the year-earlier period.

Cratos Wealth senior analyst Ron Klipin said the results had been within expectations.

"What I find quite interesting is the strength of the apparel line, with the profit up nearly 13% under difficult market conditions. The home division’s operating profit increase of 22% is also a good result."

In January 2016, the share price was at about R150, but it has since recovered to close at R184.50 on Tuesday.

Source: Business Day