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Murray a hard act to follow as he leaves TFG on top of its fashion game

Back in the late 1980s, The Foschini Group (TFG), or simply Foschini as it was known, was the undisputed leader among JSE-listed clothing retailers.

Chairman Stanley Lewis and MD Hugh Mathew ran a tight ship, selling a wide variety of clothes and accessories, predominantly on credit, to the middle and lower end of the social spectrum.

By the 1990s, Foschini had lost its way and leadership in the sector passed to Truworths. In more recent years, Mr Price has assumed that dominant role, though in the past few years even it has demonstrated its vulnerabilities as the local economy has become a progressively difficult place in which to perform.

During these developments, TFG has quietly been regaining its mantle as the pre-eminent JSE-listed clothing retailer. There are now more than 4,000 outlets in 32 countries on five continents. With successful operations in Africa, the UK and Australia, TFG has no direct comparative in its sector.

Much of the kudos for TFG's resurgence is attributable to outgoing CEO Doug Murray. Flying very much under the radar compared with some of his more flamboyant peers, this Edinburgh-born Scot has worked wonders with TFG and retires in September 2018.

In the financial year ended March 31 2018, 70% of TFG's revenue came from Africa (the huge bulk of this being SA), 11% from Australia and 19% from the UK. Only 6.5% of total sales came from online, though there are wide regional variations within this broad figure. The group is cautiously optimistic about TFG Africa's prospects and is enjoying better than anticipated performance from both the UK and Australia.

Two-thirds of sales were generated in cash, and that component will increase in 2019 as a full year's contribution from recently acquired non-SA operations gets recorded for the first time. Headline earnings per share rose by 9.6%, or 10.2% in constant currency terms. Comparable headline earnings per share, stripping out the impact of new floor space, was 3.4% up. Cash conversion ratio was 77%, up markedly on the 10-year average of 40%.

Net bad debts as a percentage of debtors' book was a relatively low 10% due to the National Credit Regulator's affordability tests, which required documentary evidence of a credit applicant's earnings. Credit legislation has been challenged in court by South African retailers, with a ruling in their favour, so it



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is likely this ratio will start to increase from now on.

Trading on the UK high street is tough, with many well-known British retail brands going into administration, but TFG's portfolio of stores in the form of Phase Eight, Whistles and Hobbs appears poised for reasonable growth in future, mainly from enhanced online and concession sales.

Australia, notorious for being the graveyard for the hopes of many a South African retailer, has been much kinder to TFG. Its Retail Apparel Group had a good year, with sales rising by 14% in the eight months the firm was consolidated into TFG's accounts. Gross profit margin was a very impressive 66%.

According to Murray, that figure is significantly ahead of any other retail operation in Australia. Its target is the fashionable mid-market and value segments, somewhere between Cotton On/Uniqlo and Zara.

The outlook for the Australian economy remains stable, even though interest rate rises appear to be on the cards.

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Incoming CEO Anthony Thunstrom, who is the current TFG chief financial officer, is not long experienced in retail, having only joined in 2015.

He has spent the bulk of his career at professional services firm KPMG, which TFG fired in 2017 as auditors, including a spell as its Global Africa chief operating officer, as well as sitting on its board.

Thunstrom certainly has his work cut out, with big shoes to fill following Murray's retirement, as well as a challenging South African retail background.

He is inheriting a remarkably well-run company adept at managing credit, and the yardstick by which all other South African clothing retailers are measured. He needs to keep it on that course.

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