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Publication		
BUSINESS DAY		
Page	**Date**	**AVE (ZAR)**
11	Wed 21 Nov 2018	22141.69

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TFG rides the wave that dumped other retailers in Britain and Australia

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Realising that pinning its hopes on a moribund SA economy for growth was futile, retailer TFG, which owns the Foschini brand, began expanding into the UK and, more recently, Australia. Both jurisdictions have tended to be graveyards for SA consumer companies, but not so for TFG.

Besides its successful geographic strategy, it has also gone for diversification that lessens dependency on any specific merchandise category and has reduced exposure to credit sales.

Clothing accounts for over 83% of group turnover, with cellphones accounting for 5.5%, homeware 4.5%, jewellery 4.2% and cosmetics 3.2%. International clothing makes up 37% of total turnover. TFG London and TFG Australia are cash-only operations, while the cash-to-credit ratio in TFG Africa is 55:45.

For the interim period to end September 2018, turnover rose 29%, helped by the acquisition of Hobbs in the UK (effective date of acquisition November 2017) and RAG in Australia (effective date July 2017).

Headline earnings per share increased 8% to 506c. Comparable store turnover growth in TFG Africa was 5%, in TFG London it was 2% and in TFG Australia it was a very healthy 15%. Although SA turnover growth appears quite pedestrian, it is good in local comparative terms.

Free cash flow was 85% of net profit and debt:equity is a very comfortable 64%.

With the SA economy in recession, its jewellery market is contracting, reflecting the lack of discretionary consumer income. The Western Cape had its lowest comparable store turnover growth yet at 2%, exacerbated by the severe drought there, which affected employment. Massive fuel price increases and the April VAT increase were other detractors.

CEO Anthony Thunstrom notes that in SA there are more companies closing stores than opening them. He observes an element of reality creeping into the retail property segment. TFG Africa pushed back heavily on landlords, with escalations averaging 5.9% compared with 7.2% in the prior interim.

While the economy makes trading difficult, it is even tougher in the UK, according to Thunstrom. Brexit uncertainty remains; the traditional department store model is under extreme pressure; and store rentals have been too expensive for too long.

But TFG London appears to be making solid progress in this challenging environment, taking market share from competitors.

The Australian picture is mixed, and while TFG is doing particularly well, there are indications that the economy may be cooling. Annual GDP growth is holding steady at about 3.4% and while house prices are softening due to increasing interest rates, they remain far out of reach of the typical TFG younger consumer. Concluding that saving to buy a house is often futile, these appearance-focused spenders are instead opting to buy attractive clothing with their discretionary income.

TFG Australia opened its first SA concept store earlier this year in the shape of an American Swiss store. It plans to open another six in Brisbane, Melbourne and Sydney. Early indications have been extremely positive.

Online retailing penetration differs significantly throughout the group. While online accounts for only 1% of TFG Africa, TFG London enjoys a 30% online exposure.

CEO ANTHONY THUNSTROM NOTES THAT IN SA THERE ARE MORE COMPANIES CLOSING STORES THAN OPENING THEM

The group recently launched MyTFGWorld.com, an ambitious online retailing platform that will eventually showcase not only the group's 20-plus in-house brands but also third-party vendors, with the intention to take on Amazon and Takealot.com.

TFG has been a good performer in the past few difficult years, with only Mr Price beating it in terms of share price performance. Truworths and Woolworths have disappointed in comparison.

The offshore expansion has been cleverly conceptualised and executed, and this helps to insulate it from the SA economy. And when the local landscape eventually turns around, TFG's huge local footprint should help it to outperform its peer pack.

● *Gilmour is an investment analyst.*