Publication		
THE STAR - BUSINESS REPORT		
Page	Date	AVE (ZAR)
13-14	Mon 10 June 2019	81914.08

Foschini and Clicks offering good returns in otherwise bleak retail sector | 14

RETAIL

Foschini, Clicks offering good returns

But they are the outliers in an otherwise slumping economy and a withering JSE sector in the country

EDWARD WEST
edward.west@inl.co.za

FOSCHINI is a shining light in a withering retail sector, says the writer. | LEON NICHOLAS ANA

PROSPECTS for retail sector companies on the JSE had withered this year in line with the slumping economy, but there were outliers, such as Foschini and Clicks, providing good returns for shareholders in the sector, analysts said on Friday.

Analysts, chief executive comments and economic statistics have all painted the same picture: weak household balance sheets, limited real growth in disposable income and high unemployment continue to limit retailers' scope to boost growth and returns for shareholders.

While the successful election has brought some hope for renewed growth, Goldman Sachs analysts Yulia Gerasimova and Mikhail Butkov wrote in a note last week that "structural economic reforms are likely to take time."

They favoured stocks with defensive business models and strong or improving returns and free cash flow generation; and reiterated their buy ratings on Foschini and Clicks.

One analyst, who chose to remain anonymous, said it would take a long time for the economy to grow sufficiently to the point that it would result in meaningful growth in retailer margins. He said one of the best defensive characteristics at Clicks, apart from its strong performance track record, was its pharmacy chain and its personal care products.

He cited the so-called "lipstick effect", which was when consumers will still spend on small indulgences during recessions or periods of very low economic growth, or when they had little cash. Many of Clicks' beauty and healthcare products fell within the price range of a "lipstick effect" purchase, he said.

He said a great deal of Clicks product sales were also promotionally driven, which was often supplier supported, adding to its defensive qualities. In addition, it was growing its brands in stores, with a growing emphasis on the range of private label goods. The sale of premium goods and of private brand labels selling higher quality goods was at least one of the faster growing niches in retail, he said.

The defensiveness of being the country's biggest pharmaceuticals chain was due to a view that people cannot do without their medicine, the analyst said.

He said Foschini derived its defensiveness from its wide array of well known brands, and from its well diversified expansion in the UK and Australia, and from price points that were "still palatable" in the "very tight" South African consumer environment.

Adding to this was a strong track record of earnings growth. Foschini has reported 17.3 percent compound annual turnover growth over the past five years, while headline earnings per share has increased at an annual compound rate of 7.8 percent over the same period.

Another analyst, also speaking on condition of anonymity, said, however, he was sceptical of the claim that Clicks' pharmaceutical business made it more resistant to a consumer downturn, because the hospital and medical aid membership figures had started to decline in the current weak economy.

In addition, Clicks' share price was high, with the price-earnings ratio at 31, which made it expensive relative to its peers, the analyst said.

He agreed that Foschini's diversification was paying off well and he said Foschini was "the only" South African retailer to have made a successful acquisition in that country.

He believed that Shoprite, which was dealing with a change of management, should instead be considered a defensive stock, because "during these times people tend to buy down" and they might decide to shop at a Shoprite store instead of going to Woolworths to save money, he said.

The analyst, however, questioned why an investor would invest in local retailers in any case, as South Africa had among the lowest per capita gross domestic product per square metres of retail space in the world, and among the highest per square metre retail space per capita.

Local retailers are facing particularly strong headwinds. Rising taxes, fuel costs and other bills and sluggish economic growth have dented consumer confidence, while unemployment remains stubbornly high. Public and private sector investment has fallen very low.

Sanisha Packirisamy, an economist at Momentum Investments, said in a recent note that total retailer confidence published by the Bureau of Economic Research slumped further to 24 index points in the first quarter of 2019, substantially below the neutral 50-point mark.