

Spar keeps costs, consumer woes at bay

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Retailer Spar Group, which reported half-year results on Wednesday, 21 May 2014, said trading conditions remained tough, with pressure on consumer spending due to rising unemployment, now at 25.2%, increasing household debt and interest rates.



Like its rivals the group is feeling the heat as consumers tighten their belts and search for bargains and promotions amid rising costs.

"Mine strike action has affected trading in certain rural regions through reduced disposable income. Retailers continue to be faced with fierce competitor activity, as well as increasing energy and operating costs," Spar CEO Graham O'Connor said.

The company's net income increased 9.4% to R642.9m in the six months ended 31 March.

Group turnover rose 7.6% to R25.6bn, supported by the strong performance of liquor and building materials, as food sales came under pressure.

Guild model

Jean Pierre Verster, an analyst at 36One Asset Management, said the results showed the group was resilient, but because Spar had a guild model it was tricky to compare it to other retailers.

The latter do not just sell through guild members, which could loosely be called franchisees, but directly to the public.

Spar retailers in the Southern African region are members of the Spar Guild of Southern Africa, a nonprofit company.

Retailers who elect to be part of the Spar Group sign a membership agreement with the guild, which provides them with access to procurement and distribution expertise, and the associated support services of the group.

No fixed-cost base

"On the one hand, when things go well, Spar doesn't really benefit as they don't see the margin increased, because they don't have the fixed-cost base of running the stores themselves," said Verster.

"On the flip side, when things are tough, as they are currently, they don't really have the downside.

"In the last few years we've seen an implosion of Pick n Pay's profitability and they are recovering because they were really struggling.

"Similarly with Shoprite, which has seen a very good growth as they have benefited from the fixed-cost base of running more retail outlets.

"But with Spar you should expect a more stable margin progression on the upside and the downside.

"That's what you see in these results - gross profits increasing slightly, a top-line above inflation. Their cost management being very good because they don't run stores, they run distribution centres," he said.

HEPS and turnover

The Durban-based company said headline earnings per share rose 9.1% to 372c. An interim dividend of 195c was declared, up 8.9%.

Spar wholesale turnover increased 6.6% to R20.8bn, benefiting from strong uptake of Spar house brands. At the end of March the group serviced 873 Spar stores.

Total retail turnover increased 6.6% on a comparable store basis.

Wholesale turnover grew 11.4% to R2.1bn at Tops, the liquor chain, with the group eyeing up to 20 outlets in its second half.

Build it, Spar's do-it-yourself hardware chain, staged a strong recovery, with wholesale turnover growth of 11.3% to R2.7bn against muted market demand.

"Build it is doing well, firstly because the independents are coming into the guild. Also, sales of building materials have been quite resilient, " said Verster.

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