Pressure on consumers affects Spar's bottom line

By Zeenat Moorad

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Spar Group said on Tuesday it experienced a challenging trading period for the 17 weeks ended 26 January 2013, with turnover at R15.8bn, growing 10.7% on a comparative basis against the prior year.

Market conditions remain tough as retailers battle each other, and consumers feel the pinch of escalating utility costs and rising debt.

Simon Anderssen, an analyst at Kagiso Asset Management, said Spar's update suggested a slowdown in the traditional wholesale business over the December period.

"This is consistent with updates from listed peers and other evidence of growing pressure on consumption spending," Anderssen said.

Spar Group said high fuel costs continued to have some effect on its profitability.

"Fuel is a relatively larger proportion of Spar's cost base, compared to other retailers," Anderssen said.

However, the company said its performance continued to reflect positive volume growth and moderate levels of food inflation.

Daniel Isaacs, equity analyst at 36One Asset Management, said: "It was a very sparse update; their turnover up 10.7% is average, it's nothing spectacular. It's good to see positive volume growth, although once again we're not sure how much of that is new store openings."

Last year, local retailers continued to surprise - delivering solid results in a relatively difficult trading environment. While most players did err on the side of caution in their expectations for the Christmas period, their updates disappointed the market, and put strain on share prices.

Stanlib retail analyst Theresa Heath said: "It was a case where expectations ran away with themselves. I actually think that the results that the retailers delivered weren't that bad, if you look at them in the context of the prior period. So, Christmas 2011 was quite a strong period, but the period leading up to Christmas was a little bit weaker. In this period, August to October was quite strong and then Christmas was a little bit weaker, but if you look at the base, it was the opposite."

Shoprite Holdings (SHP) had its biggest one-day drop in more than six years last month, plunging almost 6% after Africa's biggest grocer posted a 13.8% increase in turnover to R46.7bn for the six months ending December. The market was expecting an increase of about 15%.

During 2012 and 2011, retail stocks had a stellar run as the seemingly insatiable appetite of foreign investors in search of higher yield continued to drive valuation - boosted by the hype over the rest of Africa's growth prospects. Local market players however, voiced concern that the price:earnings ratios of retail companies were unsustainably high, with retail counters not pricing in the risk of a slowdown in consumer spending.

"Certainly for Shoprite you saw people just looking at their quarter one results and drawing a straight line. So I think it was a case of an expectations miss, instead of a company miss. People have also been ignoring the fact that consumer support isn't as strong as it was, there are a lot of pressures on consumers. The thing that's frustrating about these updates is that they only tell you about the top line, so we have no line of sight at this point on what's happening to Shoprite's earnings line and really, investors buy earnings not top line. It will be interesting to see what happens in this month when some of the retailers report on their first half," Heath said.