PnP turnaround led by sales

By Zeenat Moorad

14 Oct 2015

Strong sales growth in Pick n Pay's half-year has signalled a turnaround in the retailer's fortunes, as its recovery plan shows clear signs of improvement.

© akz – 123RF.com

Yesterday, the Cape Townbased group reported a 23% rise in profit to R322.5m for the 26 weeks ended August 30. Turnover grew 8.5% to R34.9bn from 6.1% in the previous financial year. Like-for-like turnover grew 4.4% on last year, an improved performance on a year ago's 3.6%.

This was achieved in a tough market as consumer confidence deteriorates in the face of escalating utility costs, higher taxes, and a weakening rand.

CEO Richard Brasher said the group had a good first half.

"Despite the challenges, we're very focused on our business. I don't allow the team to come in and give me excuses based on the economy, the weather, the wind and the tide - we have to look at our own business and control what we are in charge of.

"Improved underlying fundamentals through a stronger, more stable business, as well as promotional activity such as its

48th birthday campaign, Stikeez figurines and price comparison tool Brand Match were the key drivers of sales growth.

"I always wanted it to be a sales-led (recovery) rather than a cost-cutting exercise and we have delivered strong growth in our profitability, which hasn't been sacrificed by our increase in sales," Mr Brasher added.

Internal food inflation fell to 3% over the period, down from 6.3% in the second half of last year. The group maintained its gross profit margin at 17.7%.

To strengthen its offer, Pick n Pay reviewed and streamlined its product range.

"Detailed planograms in key categories are resulting in more effective product display, better on-shelf replenishment and improved product availability," he said.

The company said trading expenses as a percentage of turnover, dropped from 17.5% to 17.3%. Alec Abraham, senior retail analyst at Sasfin Securities said: "The main thing for me is that for the first time in three years, they've had positive volume growth. That is a real biggie. We're not seeing that extent of bleeding market share loss; they're starting to stem that."

The first three of the retailer's "Next Generation" stores were launched -these will be the template for its new store design and operating model.

Pick n Pay had been battling for a while, but it seems to have sustainably halted that decline and was starting to come back, 36ONE Asset Management analyst Daniel Isaacs said.

"The like-for-like volumes are much better than the previous period. That is usually a key indicator "¦ in the previous period they were negative over 2% and now they're positive over 1% ... so it's a decent turnaround. Part of it could be due to them closing underperforming stores in the base," Isaacs said.

"Given the competitiveness of the market and the constrained consumer, it may not be a V-shaped recovery, but I think we've seen the last of the decrease ... it looks like they're doing the right things, a lot of which may already be in the share price though," he said.

Four underperforming stores were closed.

More than 200 new suppliers were brought within Pick n Pay's centralised supply chain. Across all regions, the group has reached 55% centralisation.

Pick n Pay declared a dividend of 11.6c per share, up 23.4% on last year.

Source: Business Day