

Clothing retailers' sales pick up

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15 Jan 2016

South African retailers face a tough environment this year due to challenging domestic macroeconomics, but those with exposure to developed markets and higher earning customers are likely to fare better.



Photographer: James Oatway

Image source: Bdive.co.za

In a trading update released on Thursday, Woolworths said its group sales had risen 17.1% and it expected half-year headline earnings for the period ended-December 27 to grow between 25% and 35%.

Woolworths's food division saw sales jump 12.1% in the period under review, while its clothing division reported a 11.7% rise compared with the same time in the previous year.

Woolworths said sales in its Australian business David Jones, including concession sales, had risen 11.2% in Australian dollar terms. Country Road Group sales in Australia and New Zealand were up 13.4% in Australian dollar terms.

Clothing retailer Truworths said on Thursday its group sales for the 26-week period ended-December 27 had risen 36% to R8.5bn compared with the previous corresponding period. The results included its acquisition of UK cash retailer, Office.

On Tuesday, The Foschini Group said total sales in the nine months to December 26 had risen 33% compared with the same period in 2014.

"Most of them (retailers) were slightly better than expected. Towards the end of last year, in December, it seems sales momentum improved. The exception to that is Massmart," Alec Abraham, a senior retail analyst at Sasfin Securities, said.

"Having said that, they are still at lower levels than previous years. Pricing and internal inflation shows these companies have been keeping prices low to try and support volumes."

As an example, Abraham said that in the July to November period, Woolworths Food inflation was 6.5%, but this improved to 5.7% in the July to December period. "In December, they had aggressive price promotions."

Truworths said that compared with the corresponding previous period, its group cash sales had grown 85.2% and credit sales had risen 15.8%.

Credit sales comprised 60% of group retail sales during the 26-week period ended-December 27.

But with interest rates expected to rise, Abraham said, this year would be tough. "If you look at the macroeconomic drivers of retail spending, these include employment, wage growth and credit growth."

Kyle Rollinson, a retail analyst at Avior, said he expected "challenges going forward on the credit side".

Abraham said he favoured retail stocks that had exposure to developed markets. With a weakening rand, these retailers had an opportunity to translate foreign-earned income to higher rand earnings.

South African retailers have been diversifying geographically. In 2014, Woolworths acquired David Jones. Last year, The Foschini Group bought an 85% stake in UK women's fashion chain Phase Eight and Truworths announced it was buying UK fashion footwear chain, Office Retail Group.

Source: Business Day

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