

Woolies faces fight on many fronts

By [Giulietta Talevi](#)

22 Jun 2017

Shares in Woolworths, once regarded as a recession-proof retailer, are trading close to three-year lows as the company finds itself stuck between SA's stalling economy, the cash-guzzling turnaround of its David Jones acquisition in Australia and an impending competitive onslaught from Shoprite, which is moving up-market.



Image credit: *Business Day*

Woolworths stock closed at R62.25 on Wednesday, a drop of 42% from its high of R106.88 on November 15 2015. In the same period, Shoprite shares have gained 36%.

One analyst said the country's retailers underestimated the gravity of the changes new entrants such as H&M and Zara were bringing to the apparel sector. If they failed to adjust to this "seismic shift", they would battle to survive.

"I get the sense that they think it's just a cyclical downturn, and they are going to come up short," said Sasfin Securities' retail analyst Alec Abraham.

Abraham was also critical of apparel companies' reliance on discounting. "That's a race to the bottom. What is being overlooked is a focus on styling. You don't have to discount if you have what people want."

Woolworths has a new threat to contend with: Shoprite's push to take market share through its Checkers stores. Shoprite

plans to open 23 Checkers outlets in wealthy areas by June 2018.

Sales from Checkers stores have grown more than 11% over the past 12 months, ahead of the group's 8.8% increase and higher than Woolworths' 9.5% increase in food sales for the first half to December 25.

In Australia, Imraan Jeeva, analyst at Mvunonala Asset Managers, told Business Day TV that management was overspending on righting the David Jones business. "It's a really competitive environment right now ... it looks as though they're destroying more and more capital. I'd like to see management own up to their errors, honestly, and give a very credible strategy as to how they're going to preserve what value they do have in Australia," said Jeeva.



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Woolworths, heading into a closed period ahead of its year-end later in June, said it was on a "transformational journey" at David Jones. Its investment would "make a considerable and sustainable difference to the business in the long term".

CEO Ian Moir does still have backing among analysts.

"If I look at " how he successfully converted Woolworths' brand equity into shareholder value, it left me confident that he could do the same with David Jones," says Abraham.

"I'm quite positive that they have diversified their geographic sources of income outside of SA - it's prudent."

Still, Australia's retail environment is proving no easier than SA's. Sales fell 0.2% in both February and March, before rising 1% in April. In SA, April retail sales showed year-on-year growth of 1.5%, but for textiles, clothing and footwear, sales between February and April dropped 5.9%.



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Source: *Business Day*

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