Consumers' festive spree

Armed with cash or backed by readily available credit, SA consumers continued on a merry shopping spree during the Christmas season. This is according to trading updates from Mr Price, Massmart and Shoprite.

Star performer was Mr Price, which entered the big-spend final quarter of 2011 with its racks bulging with over R220m more stock than a year earlier. The bet paid off with apparel sales soaring by 16.9% compared with the fourth quarter of 2010. Adjusted for inflation of 4.3%, sales volume was up 14.3% while on a comparable per store basis volume rose 8.7%, well above the 2.9% volume uplift recorded in 2010.

"Mr Price read consumers' fashion demands well and must have gained market share," says Nedbank Capital analyst Syd Vianello.

On the back of its update, investors boosted Mr Price's share price to a record high and its forward p:e to a heady 18.7 based on the consensus forecast of analysts polled by I-Net. This is a big premium to the retailer's average historic 13 p:e over 10 years and well above Truworths' and Foschini's average 14.7 forward p:e.

Arguably, justifying the premium is the possibility that consumers feeling the economic pinch will gravitate to the perceived value Mr Price offers.

Much the same applies to Massmart trading at a record high and a hefty forward 25 p:e. "Walmart fever is at play," says Vianello, referring to the US retail giant's acquisition of a 51% stake in Massmart.

Investors are looking for big things from Massmart, which traded well in the six months to December but no better than it did a year earlier. Sales lifted 15.2% to R31,6bn. Adjusted for inflation they rose 14.1%, down on a 16.2% rise in the six months to December 2010.

Vianello warns that Massmart is incurring hefty upfront costs to meet Walmart's requirements and that its results in the six months to December 2011 will disappoint. Benefits of the spending will begin to be seen only in the second half of 2012, he predicts.

Absa Capital analyst Christopher Gilmour believes Walmart is holding back a full-scale price offensive until the competition appeal court hearing into its acquisition of Massmart is resolved. "We are seeing only the tip of the iceberg," he says, referring to discounts Massmart is offering on a limited number of products. On prospects of the court hearing, he adds: "I think it will be in Walmart's favour with few or no added requirements."

If a full-scale price offensive were launched by Massmart it would face stiff opposition, particularly in the food sector which it is targeting as a key growth area. Not the least of the opposition would be from SA's largest retailer, Shoprite, which set a cracking pace in the six months to December, lifting sales 13.2% to R41bn. Adjusted for internal food inflation, volume growth was 8.2%, an excellent showing against the background of marginal growth in the fast moving consumer goods sector.

But whether Shoprite's showing justifies a forward p:e of 22 - a third higher than its average historic p:e over 10 years - is a moot point. All the more so as it faces a potentially aggressive price conflict with Massmart and a resurgent Pick n Pay striving to regain lost market share.

In general, retail is a sector where ratings allow little room for error at a time when competition is set to rise to new levels. Rising inflation may be a positive for sales growth but the potential for this benefit to be offset by lower trading margins should also not be ruled out.

Source: *Financial Mail*