Labour instability affects Lewis's bottom line

By Zeenat Moorad

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Lewis Group on Monday, 28 January 2013, said trading conditions for the quarter ended 31 December 2012 had proved challenging following labour instability in the mining and transport sectors, which affected both sales and collections.

The group, which sells furniture and appliances to the lower and lower-middle income market, reported a 5.6% increase in revenue and a 2.7% rise in merchandise sales for the quarter.

Absa Investments analyst Chris Gilmour said the group's numbers were "very disappointing".

"This was not expected. Although if you look at the Stats SA figures that came out a couple of weeks ago, there was an indication that maybe furniture wasn't looking so wonderful. But this is really not good at all and not what we've come to expect from Lewis, I haven't seen anything quite as low at Lewis for a long, long time. I don't think its company specific I think maybe it's something that's actually hitting the sector as a whole," Gilmour said.

Although a clearer picture will emerge once rival retailers JD Group and Ellerines provide updates, Stats SA earlier this month said retail sales rose 3.4% in November last year, up from a 0.9% rise in October, driven mainly by the clothing and footwear category, which rose by 8% year on year and contributed 1.8% to the overall figure. Household furniture and appliances grew by 6.4% year on year, contributing 0.4 percentage points.

In November, Lewis Group CEO Johan Enslin said the retailer was in a position to fight for all available sales in the festive season.

"It will be tough, but as a true-blue retailer, we always prepare well for Christmas. We are carrying more stock than a year ago, and we've taken a conscious decision to take control of stock earlier. We're backing it up with very strong added-value promotions," Enslin said at the time.

Although the majority of SA's retailers posted solid results last year, analysts are concerned the rate of growth is unlikely to continue as consumers start tightening purse strings.

"If you look at the dynamics related to that lower Living Standards Measure (LSM) that it operates in, they are getting disproportionately affected by the likes of these higher electricity, food and fuel prices - it's having a real impact on these guys," Gilmour said.

In November, Lewis Group reported a 10.6% gain in headline earnings per share to 419c for the six months ended 30

September. Revenue grew 6.6% to R2.4bn. The company's interim dividend was increased 23.3% to 212c. Lewis Group said it was on track to meet its store opening target of 20-25 stores in this financial year.