Foschini hikes credit criteria

By Zeenat Moorad

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Indebted consumers battling to repay loans and settle accounts have spurred Foschini Group (TFG) to be more stringent about extending credit.

The Cape Town-based retailer, whose 6% rise in full-year profit beat forecasts on Thursday, 29 May 2014, said lending standards would not be relaxed until there was evidence the credit cycle had turned.

As a result, cash sales grew 15.9%, and credit purchases just 5.7%. Cash sales made up 42.2% of total sales, from 40% the previous year.

"By curtailing credit, we control the tap. People are still coming in for credit, but we're rejecting almost 60% of customers at the moment and we are only accepting 40%," said CEO Doug Murray.

"The group aims for 50% cash sales as it pushes its rewards programme and gains sales through higher-priced brands more suited to cash customers. The brands include Totalsports, Fabiani and American Swiss.

Senior equity analyst at Sasfin Bank Alec Abraham said: "Internationally, retailers don't sell on credit. It's very much a legacy of the apartheid past, where ... the (likes) of Edcon, Truworths and Foschini were the bankers for the mass, unbanked population. I'm not surprised Foschini is moving in this direction. I quite applaud it; it takes a lot of risk out of the business," he said.

Net bad debt as a percentage of the closing debtors' book increased to 12.4% from 10.5% at the previous year-end, moving from 11.4% at the half year.

Abraham said this was higher than expected.

"As far as I'm concerned, Mr Price and Woolworths have been star performers in the clothing space. Truworths has good operational metrics but has been slowly slipping over the last couple of years. They are not doing enough to ward off the northern hemisphere retailers.

"I think they will be caught with their pants down. Foschini have got a phenomenal retail asset base, but management is just not extracting the full value that they can. They haven't proven that they can make these assets sweat," he said.

Diluted headline earnings per share were 902.7c for the year to March, from 851.3 previously, turnover rose 9.8% to R14.2bn, and a total dividend of 536c per share was declared, up 5.9%.