BIZCOMMUNITY

Well-run local retailers catch investors' eye

By Gillian Jones

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Foreign investors are particularly interested in well-managed South African retailers able to deliver returns in a tough economic environment.

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At the same time, their enthusiasm for investing in the rest of Africa was dimming, Bank of America Merrill Lynch SA investment strategist John Morris said on Wednesday, 1 April 2015.

He was reporting back on the bank's annual investor conference held at Sun City last month, at which foreign and local investors had a chance to meet and better understand South African corporations and their operating environment.

Foreign investors were most interested in meeting executives from Woolworths, then Truworths, Pick n Pay and Shoprite. These were followed by Tiger Brands, Bidvest, Steinhoff, Foschini, Mr Price and Clicks. Naspers was in 11th place for the number of meetings requested.

South African retailers were seen as having strong managements able to deliver returns despite a difficult operating environment, said Morris.

"Foreigners are pleasantly surprised about business conditions (and) how good management is and how they eke out returns in a tough environment," he said.

Local retail stocks have returns on equity, a measure of profitability, ranging from 20% to 50%.

About 46% of South African free-floating equity is owned by foreigners, according to a February report by Bank of America Merrill Lynch. Resource stocks are 63% foreign owned compared with financials at 26%.

Investors at the conference were interested in banks but showed little interest in construction and resource companies. Infrastructure spending remains stalled and commodity prices are weaker, coupled with a stronger dollar.

Lower commodity prices had muted investor interest in the rest of Africa, said Morris.

In the past few years there had been growing interest in the continent. This had faded, although there was interest in long-term opportunities.

SA is seen as a better investment destination than emerging-market countries such as Russia, Brazil and Greece.

Matthew Sharratt, a Bank of America Merrill Lynch economist, said foreign investors were not interested in the "nuts and bolts" of South African politics but they were concerned about what policy inertia meant for growth.

"But at the same time there was an appreciation that there are quite advanced infrastructure plans in SA," he said.

Morris said investors were also concerned about load shedding and its effect on growth, strikes and public sector wage negotiations.

However, their concerns about the local operating environment had been alleviated, resulting in flows of R1.5bn into local equities since the conference. Before that, SA had experienced net outflows.

Investors were not concerned that South African equity was expensive, as long as management delivered earnings growth, Morris said.

"Where you have strong management delivering, they were comfortable with high valuations," he said.

Source: Business Day via I-Net Bridge