

# Massmart also sees more pain

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Retailer Massmart offered on Thursday a sober outlook for the sector, echoing those of rivals, indicating that prospects for a quick revival in consumer spending are growing remote. Conditions are expected to worsen as the economy slows and higher inflation, a weaker rand and rising interest rates bite.



Makro store in Midrand, Johannesburg.  
Photographer: Antonio Muchave

Image source: [BDive](#)

"Overall consumer confidence is the weakest since 1994. What is particularly worrying for me is that upper-income confidence is sliding. We are going to find out the extent (to which this segment) has been sustaining South African retail over the last five to 10 years," Massmart CEO Guy Hayward said.

The group, which serves all income bands, reported an 8.4% rise in total sales to R84.7bn in the 52 weeks to December 27.

Massmart has seen changes in shopping behaviour, with consumers buying smaller packs. It has also seen softer sales at mid-month (except for the 15th, when some people get paid) and shoppers travelling less frequently and shorter distances.

This month, Shoprite and Woolworths warned that trading conditions would get tougher.

Massmart's gross margin of 18.9% is slightly higher than the previous year's 18.6%.

Group operating profit, excluding foreign exchange movements and interest, grew 14.1% to R2.3bn in the period under review. Sales in Massmart's non-South African businesses increased 12.6% in rand terms.

Alec Abraham, a senior equity analyst at Sasfin, said it had not done too badly operationally.

"They managed to push up margins. Massmart is a very efficient business and in the last couple of years, they've been investing quite a bit of money in Walmart-ising the business. It's really geared for a good performance," he said. "However, that's all very dependent on volumes. The outlook seems very scary ... trouble could be coming."

As indicated last August, the group adjusted its dividend cover to two times, from 1.55 times. A dividend of R2.85 was declared, a 39% cut.

"We've been rich on dividend and we have now aligned that to our retail peers," Massmart chief financial officer Hans van Lierop said.

"As any prudent grocer or housekeeper will do in times of a challenging economic environment, you want to make sure your balance sheet is nicely in tune and you can capitalise on opportunities that may present themselves."

In the company's Massdiscounters division, which includes Game and Dion Wired, total sales for the year advanced 8.7%. Comparable sales grew 3.9%.

Massbuild, whose brands include Builders Warehouse, saw solid growth again, with total sales growth of 11% in the year and comparable sales rising 7.4%. Makro's total and comparable sales growth for the period was 9.8%. The chain saw volume growth of 6.4%. Masscash total sales grew 6.1%, with comparable sales growth of 5.8%.

**Source:** Business Day

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