

Retailers gear up for festive season as results improve

Unsecured lending may be a strain

Nompumelelo Magwaza

THE LATEST numbers from two top fashion retailers, Truworths and Foschini, showed consumers were in a good position to spend going into the festive season, however, retailers must pay attention to the warnings about unsecured lending, retail analysts said yesterday.

The Foschini Group, which was upbeat about the festive season, yesterday reported a rise of 12.5 percent in retail turnover to R6.1 billion for the six months to September. Headline earnings a share increased by 17.1 percent to R4.

A final dividend of R2.36 a share has been declared, an increase of 24.2 percent.

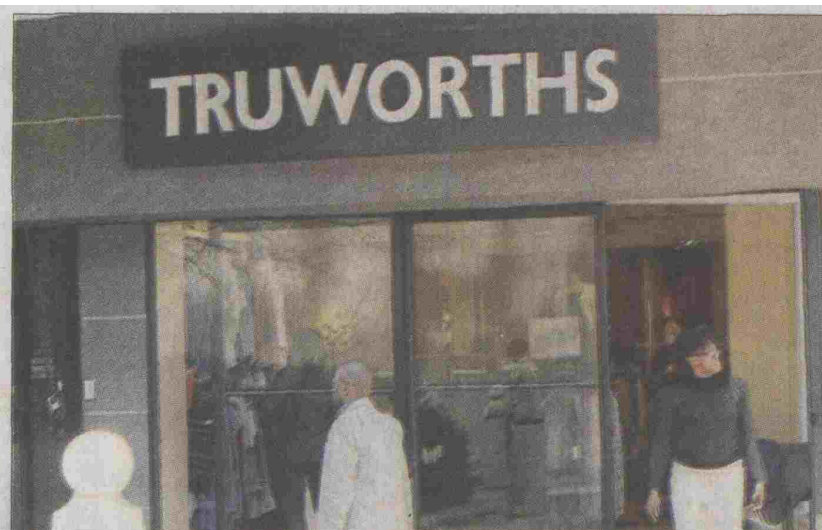
Foschini chief executive Doug Murray said retail turnover for the first five weeks of the second half had continued at similar levels to the first half, and despite the challenging economic environment, the outlook remained good.

"We believe we can again deliver satisfactory results for the full year, albeit against a strong base and remembering that the second half is always heavily dependent on Christmas trading," he said.

Truworths said it had increased sales by 15.9 percent to R3.3bn in the first 18 weeks of the 2013 financial period, an increase which retail analysts say shows that consumers are still willing to borrow and spend money. Truworths' credit sales accounted for 72 percent of its retail sales with the trade receivable book growing by 16.5 percent to R4bn.

Daniel Isaacs, an analyst at 36One Asset Management, said Truworths' sales growth numbers were above expectations and Foschini's were below expectations, but both were still relatively strong.

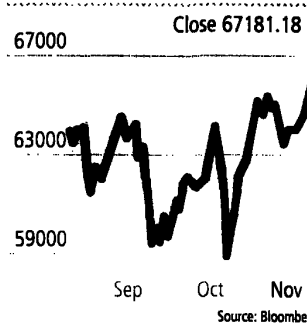
"This would seem to indicate that consumers still have the ability to spend and borrow, which would indicate a decent



Foschini's turnover rose 12.5 percent in the half year to September, while sales at Truworths rose 15.9 percent in the first 18 weeks of the new financial year. PHOTOS: LEON NICHOLAS

JSE general retail

Points Aug 10-Nov 8



festive season. However, this is only an indication and anything can actually happen."

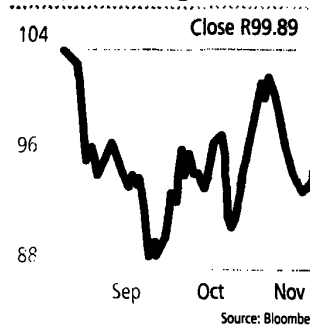
He said the festive season was hugely important to these retailers and could make or break their full-year numbers.

Gryphon Asset Management portfolio manager Reuben Beelders said Christmas was going to be an interesting period for all retailers. "The fact that there has been so much noise about unsecured debt might mean that consumers are more stretched than a year ago."

Consumers have had to struggle with increased fuel and other living expenses, this had been offset by lower interest rates and salary increases. But the impact of these cost increases have affected

Truworths

Share price, rand Aug 10-Nov 8



consumers in the various living standard measure segments differently.

Consumer spending is a key component of the economy, with it accounting for about 60 percent of the country's gross domestic product.

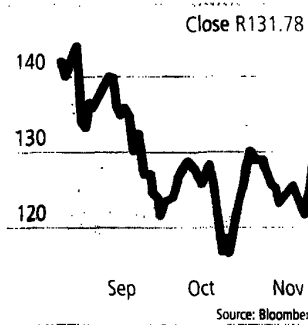
A further unknown at this stage is the impact of the recent wave of strike activity and whether the wage increases secured by striking workers had offset the wages lost during the strikes.

Beelders felt retailers would be prepared for the festive season. With product inflation still at about 5 percent, the recent weakness in the currency had not yet affected product prices.

Foschini, which owns brands such as Markham, Exact, Foschini, American

Foschini

Share price, rand Aug 10-Nov 8



Swiss and @home, said all merchandise categories did well over the period and gained market share. The group's operating margin increased to 23.1 percent, moving closer to the group's target of 25 percent.

Chief financial officer Ronnie Stein said that Foschini would have done much better during the reporting period if it was not due to supply chain problems relating to the ladies garments category, which have since been dealt with. Excluding these supply issues, retail sales in clothing would have increased by 15 percent and not 13 percent, Stein said.

The company's financial services' retail debtors' book increased by 5.2 percent since year end. "This reflected the impact of good account growth

Strikes hit ATM cash withdrawals

STRIKES in the mining and transport sectors resulted in fewer ATM cash withdrawals, according to data released yesterday.

The latest statistics found in the Spark cash index (SCI) for October recorded a month-on-month drop of 2.27 percent in average cash withdrawals from ATMs, to R439.27.

The SCI said this suggested that the strike action had a negative effect on consumer spending. The SCI measures the average value of cash withdrawals across more than 2 000 Spark ATMs countrywide.

Marc Sternberg, the managing director of Spark ATM Systems, said the statistics clearly showed that the provinces experiencing labour turmoil in platinum and gold mining

and an increase in the number of 12-month accounts," the retailer said.

Earlier this year, Foschini had introduced a reward programme for its cash-customers and had registered 1.2 million customers. The retailer has extended the reward programme to its credit customers at the beginning of this month. Stein said this had attracted about 200 000 customers.

Isaacs said: "One card up

recorded a significant decline in average ATM cash withdrawal values during October.

He said: "The North West [platinum], Free State [gold], and to a lesser extent Limpopo and Mpumalanga regions, all recorded month-to-month drops in cash withdrawal values. Limpopo and Mpumalanga also act as labour feeds for mine workers to the platinum and gold sectors."

Sternberg said the transport sector strike also affected cash withdrawal activity along the main transport routes as truckers did not draw money and no payments for truckloads were completed. However, he said the trend might be reversed in November and December. - Wiseman Khuzwayo

Foschini's sleeve is they launched their reward programme for cash customers earlier this year and this seems to have been taken up nicely, indicated by the increase in cash sales as a percent of total sales."

He said the rewards launch for credit customers could result in a good uptick in sales.

Truworths and Foschini closed at 3.1 percent and 3.8 percent higher at R99.89 and R131.78, respectively.