



## Cashbuild offers value

Meyrick Barker - Investment Analyst

“The building material retailers were one of the few beneficiaries of the COVID pandemic as people spent disproportionately on renovating their homes during the lockdown period and while working from home. This bumper period is over and consumers’ home improvement spend has retracted.”

# Cashbuild offers value

We delve into one of South Africa's largest retailers in this sector, Cashbuild, discussing the challenges of operating in this segment of the retail industry and why we believe the business makes for a sound investment.

## Brick by brick

Cashbuild was originally founded in a small Eastern Cape town in the late 1970s, as a subsidiary of Metro Cash & Carry - part of Natie Kirsh's retail empire. At the time, lower income communities in rural areas and townships were largely unserved by the established building material retailers who viewed the limited individual buying power of the communities as too fragmented and high risk. Albert Koopman, Cashbuild's founder, felt differently. He believed that a retailer offering a better proposition could gain market share from the smaller regional firms and independents servicing the market. He subsequently founded a cash wholesaling business catering specifically to the smaller building contractors and traders, selling basic building products at the lowest prices.

Sanlam assumed ownership of Cashbuild in the 1980s (via Tradegro) prior to it being listed on the JSE Securities Exchange in 1986. Pepkor then took a material stake in the business during the 1990s before fully divesting in 2000, but not before shifting Cashbuild from its wholesale focus to the retail business that

it is today. The business has been publicly owned since then and has maintained a particularly strong presence in township and peri-urban areas.

## Considering multiple stakeholders before it became fashionable

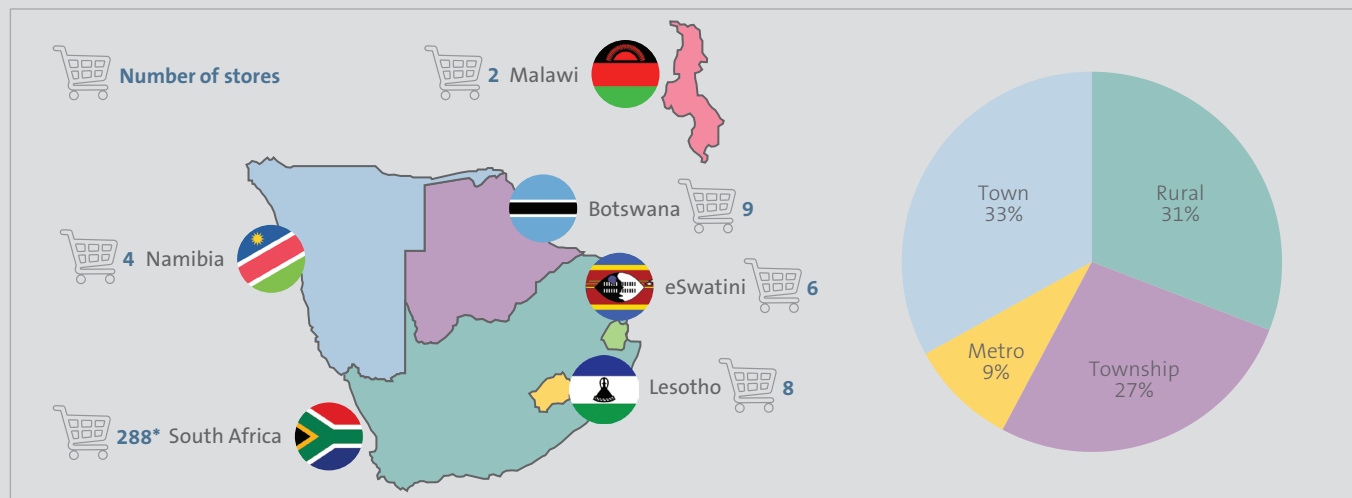
Around its fifth year of trading, Cashbuild ran into difficulties. Self-introspection led to a significant change in management style, pivoting from what was an autocratic environment to one that empowered its workforce. During the apartheid years in South Africa, Cashbuild was viewed as a politically radical private company when, as part of the changes implemented, it appointed black individuals to branch management positions and granted stock options to black employees.

The ethos of good corporate citizenship and caring for multiple stakeholders endures to the present. Cashbuild's corporate social investment spend of R180 million per annum is significant in the context of annual group earnings of approximately R440 million.

## A quality retailer you can trust

Stock availability, low prices and excellent customer service are common goals for retail enterprises. During tough economic times for consumers, the demand for cheaper products is naturally higher. However, for building material retailers,

## Geographical store location



\*Includes P&L Hardware  
Source: Cashbuild

product integrity may be compromised when price is the primary consideration. For example, this is evident in the notable decrease in the thickness and commensurate reduction in product lifespan of steel roof sheeting that is widely used in low-cost housing. Cashbuild seeks to strike a balance between sourcing cheaper products and adhering to building regulations and SABS standards, where applicable. Upholding their long-term reputation as a quality product retailer can, in a tough economic environment, come at the short-term cost of lost sales to retailers that do not maintain the same standards.

Cashbuild makes a concerted effort to educate customers on the merits of different products. This is achieved through training staff to explain optimal solutions and the establishment of social media campaigns and a DIY YouTube channel to help customers make wiser choices.

### Key product pricing considerations

While retailer brand awareness and established customer relationships are important, it is common practice for building contractors to source quotes from various building material retailers before negotiating a discount with their preferred store. In particular, cement pricing is a key determinant of where a customer will buy the rest of their basket. Cement is a

product that generates very low margins unless volume rebates are met. The ancillary sales generate far higher margins for the retailer. In this competitive environment, the ability to optimally source stock at the best price provides an advantage.

### Cashbuild's national footprint

Cashbuild is currently a chain of 317 corporate-owned stores that trades under two brands: Cashbuild (264 stores) and P&L Hardware (53 stores). Stores are predominantly located in South Africa although approximately 10% of sales occur across Namibia, Botswana, Lesotho, eSwatini and Malawi. The *chart on the previous page* demonstrates store layout by country and consumer segment serviced. Cashbuild uses their national bulk to procure volume rebates from suppliers who deliver directly to stores.

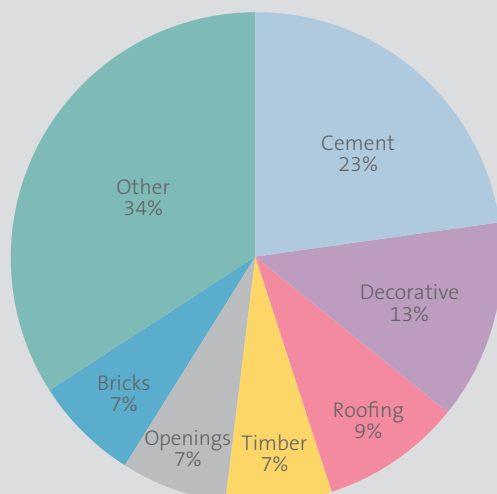
### The competition

Large, listed competitors include Spar's Build It, Massmart's Builders Warehouse and Pick n Pay's Boxer Build. Although targeting slightly different end consumers (eg Builders Warehouse typically targets a more affluent consumer), the large corporate players collectively comprise around R50 billion in annual sales, or 60% of the total building retail market. For context, the South African grocery market's annual sales is estimated at about R1 trillion.

The tenacity of owner-managed franchises cannot be underappreciated and there are several formidable independent competitors such as Mica, Power Build and Essential Hardware. Importantly, many independent operators have aggregated within buying groups such as Elite Star Trading, allowing the entrepreneurial operator to retain their independence but benefit from centralised, large-volume procurement, therefore remaining competitive with the large corporate chains.

As there are few impediments to opening a building retail store, store openings tend to be cyclical. During upswings in building activity (as recently experienced), many entrepreneurs open building material stores. Although their stock holdings are often limited and prone to fail as cycles turn, they are quite disruptive over the short term from a pricing perspective, particularly when they don't comply with the same regulations as larger listed players.

### Cashbuild primary product offering



Source: Cashbuild

# Cashbuild offers value

---

## **Delivering what the customer wants, where they want it**

Although less evident in a distressed environment, customers tend to stick to a brand they know and trust. These brand preferences differ across regions and having the right store manager that is empowered, supported and acutely aware of local dynamics is vital to the success of such a business. Promoting localised talent from within is a key focus for Cashbuild as this typically translates into stronger community support and buy-in from the catchment area. Cashbuild's ability to understand their customer base ensures they provide a focused range of products (primary sales mix *charted on the previous page*) and services suited to the needs of each market. The business model is one of retailing high volumes of building materials at discount prices through large-format stores, ensuring that stores can be a one-stop-shop for the client base. The ability to procure a full basket is important for the portion of the customer base who cannot afford to waste money on the transport costs of visiting multiple stores. Cashbuild's free local customer delivery service also serves as a positive differentiator as they get the product promptly to where it's needed.

Although Cashbuild offers online sales, they remain negligible. Having struggled to implement a credit offering to customers in the 1990s, Cashbuild solely operates on a cash basis today. They do, however, partner with external credit providers who offer in-store credit.

## **Resilient foundations with scope for growth**

Cashbuild has been a consistent operator through many cycles delivering good economic returns. It is a conservatively managed business that ekes out incremental gains in a

competitive market. Most Cashbuild store layouts are very standardised - a roughly 1 200 square metre large box format often located at or near a mall. There are essentially two layouts to meet the local needs. This rigid operating model has served them well to date but makes it relatively costly to open a new store.

Cashbuild can respond to the competitor disruption now evident in the market and use their experience, spanning more than five decades, to evolve their retail offering. This can take several forms, whether it be smaller store formats to viably serve a broader section of the market or deploying the strength of the Cashbuild brand into a franchise model. This captures the entrepreneurial spirit of operators and empowers them to offer a more personalised offering to their respective communities.

Although the lower income consumer is currently in a weak position, as is reflected in recent contracting sales volumes, there is a degree of resilience within the cash flows that underpin store spend within this industry. People remain aspirational in wanting to create a home, formalise existing structures or improve on what they have. Furthermore, lower end consumption spend is reasonably resilient in South Africa. Social welfare payments are generally economically insensitive and increase with inflation, and public servants typically have very secure jobs that deliver real wage growth.

While Cashbuild is unlikely to see the recent boom in building retail spend manifest again in the near term, we believe its very weak current share price underestimates the positive longer-term prospects of the business. **UP**



Camissa Asset Management (Pty) Limited

Fifth Floor MontClare Place  
Cnr Campground and Main Roads  
Claremont 7708

PO Box 1016 Cape Town 8000

Tel +27 21 673 6300 Fax +27 86 675 8501

Email [info@camissa-am.com](mailto:info@camissa-am.com)

Website [www.camissa-am.com](http://www.camissa-am.com)

Camissa Asset Management (Pty) Limited is a licensed financial services provider (FSP No. 784)  
Reg No. 1998/015218/07

**Footnote:** <sup>1</sup> Annualised (ie the average annual return over the given time period); <sup>2</sup> TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 31 December 2022; <sup>3</sup> Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and Impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 December 2022. <sup>4</sup> Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; <sup>5</sup> Source: Camissa Asset Management; gross of management fees; <sup>6</sup> Median return of Alexander Forbes SA Manager Watch: BIV Survey; <sup>7</sup> Median return of Alexander Forbes Global Large Manager Watch. <sup>8</sup> Benchmark changed with effect from 1 January 2021 from 'Average performance in Global Equity unit trust universe'.

**Disclaimer:** The Camissa unit trust fund range is offered by Camissa Collective Investments (RF) Limited (Camissa), registration number 2010/009289/06. Camissa is a member of the Association for Savings and Investment SA (ASISA) and is a registered management company in terms of the Collective Investment Schemes Control Act, No 45 of 2002. Camissa is a subsidiary of Camissa Asset Management (Pty) Limited [a licensed financial services provider (FSP No. 784)], the investment manager of the unit trust funds.

Unit trusts are generally medium to long-term investments. The value of units will fluctuate and past performance should not be used as a guide for future performance. Camissa does not provide any guarantee either with respect to the capital or the return of the portfolio(s). Foreign securities may be included in the portfolio(s) and may result in potential constraints on liquidity and the repatriation of funds. In addition, macroeconomic, political, foreign exchange, tax and settlement risks may apply. However, our robust investment process takes these factors into account. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Exchange rate movements, where applicable, may affect the value of underlying investments. Different classes of units may apply and are subject to different fees and charges. A schedule of the maximum fees, charges and commissions is available upon request. Commission and incentives may be paid, and if so, would be included in the overall costs. All funds are valued and priced at 15:00 each business day and at 17:00 on the last business day of the month. Forward pricing is used. The deadline for receiving instructions is 14:00 each business day in order to ensure same day value. Prices are published daily on our website.

Performance is based on a lump sum investment into the relevant portfolio(s) and is measured using Net Asset Value (NAV) prices with income distributions reinvested. NAV refers to the value of the fund's assets less the value of its liabilities, divided by the number of units in issue. Figures are quoted after the deduction of all costs incurred within the fund. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Camissa may close a portfolio to new investors in order to manage it more effectively in accordance with its mandate. Please refer to the relevant fund fact sheets for more information on the funds by visiting [www.camissa-am.com](http://www.camissa-am.com).

Camissa takes no responsibility for any information contained herein or attached hereto unless such information is issued under the signature of an FSCA-approved representative or key individual (as these terms are defined in FAIS) and is strictly related to the business of Camissa. Such information is not intended to nor does it constitute financial, tax, legal, investment or other advice, including but not limited to 'advice' as that term is defined in FAIS. Camissa does not guarantee the suitability or potential value of any information found in this communication. The user of this communication should consult with a qualified financial advisor before relying on any information found herein and before making any decision or taking any action in reliance thereon. This communication contains proprietary and confidential information, some or all of which may be legally privileged. It is for the intended recipient only. If an error of any kind has misdirected this communication, please notify the author by replying to this communication and then deleting the same. If you are not the intended recipient you must not use, disclose, distribute, copy, print or rely on this communication. Camissa is not liable for any variation effected to this communication or any attachment hereto unless such variation has been approved in writing by an FSCA-approved representative or key individual of Camissa.