Shoprite reviews its operations outside SA

By THABISO MOCHIKO

● After disposing of its furniture business, Shoprite is reviewing more operations, especially in Ghana, which is facing hyperinflation that is having an effect on earnings.

The group operates in 10 countries outside South Africa, including the Democratic Republic of Congo and Angola, with a total of 266 stores.

The non-South African operations reported a 6.2% increase in trading profit to R631m. The group is targeting profits of R700m from operations outside South Africa and that may be achievable if there is currency stability, said CFO Anton de Bruyn.

"We are constantly reviewing our non-RSA, or rest of Africa, countries," said group CEO Pieter Engelbrecht. "Currently, we're sitting with Ghana and hyperinflation. So now is not a great time to invest capital in that country, because you will incur a very high depreciation charge as a result of that.

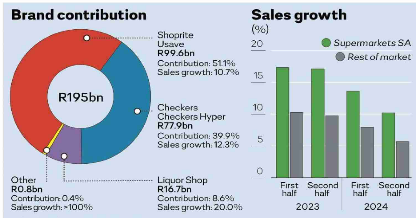
"We will see where we go from there. From a hyperinflation position, we have to get out of that. One must remember that Africa is a story of high inflation and devaluing currencies. So in local currency some countries are really doing well, but once you convert [those currencies] into rand, our reporting currency, money disappears."

Engelbrecht said that "in the last month of the year, we had currency devaluation of around 50%. When you convert to rand, the money is gone. But the business still managed to contribute R600m."

Sales growth in rand terms was negatively affected by an average devaluation of 25.8% of the Zambian kwacha, 2.9% of the Ghanaian cedi and 60.1% of the Angolan kwanza against the rand. The segment contributed 8.6% to group sales of about R250bn.

Shoprite sold its furniture business, OK Furniture, and House & Home brand, excluding Angola and Mozambique, to Pepkor. The company also owns low-income retailer Usave, while Checkers is the largest South African retailer by market capitalisation, sales, profit, number of employees and customers.

Checkers is South Africa's largest retailer by market capitalisation, sales, profit, employees and customers. Picture: Supplied



Graphic: Ruby-Gay Martin Source: Shoprite

Group says it may be able to achieve targeted sales of about R700m from rest of Africa countries — if there is currency stability

Shoprite increased sales by R72.9bn, or 43.4%, to R240.7bn in 2021-24. In the year to June, group revenue increased by 12% to R246.1bn. Group trading profit increased 12.4% to R13.4bn. Shoprite group customers spent R21.4bn more during the year to June. Customer visits for the period increased by 3.7% and average basket spend increased 8.4%.

"During a time when customers are incredibly pressured, this is the greatest reward for our efforts, which come as a result of best-in-class execution, innovation and an unwavering dedication to serve. Growth of this nature, in a highly competitive market and from a high base, can be achieved only as a result of across-the-board commitment," said Engelbrecht.

Nandi Qubeka, head of research and fund management at Nedbank Private Wealth, said Shoprite's "operational execution remains best in class, the balance sheet is sound and the group continues to make strategic investments that will further entrench its market dominance. The sale of the furniture business is very sensible. That business is non-core and [its disposal] allows for more focus on Shoprite's core area of competence."

She said that while operating costs remained elevated, "this is not unexpected given the rate at which the group is opening new stores".

Shoprite will spend R8bn this year on new stores and increasing capacity on the supply-chain side. It opened 292 new stores in the year to June, taking its total to 3,639. Of those, 2,322 are in South Africa. By the end of June next year, Shoprite wants to have added 265 new stores, with 195 in South Africa. The new stores will include adjacent businesses — clothing stores, pet shops, Little Me baby stores and Medirite pharmacies.


Shoprite group CEO Pieter Engelbrecht

Qubeka said the baby, clothing and pet stores, as well as the pharmacies, are an extension of what is already offered in the supermarkets. This "category extension" enables continued sales growth and further increases the group's scale, while requiring only incremental investment. "This expansion into new categories and revenue streams is necessary if a business the size of Shoprite is going to continue to deliver growth."

Mohamed Mitha, investment analyst for Camissa Asset Management, said the adjacent businesses presented interesting opportunities, but they would need substantial growth before they could make a substantial impact on the group's profits. "Some, such as Uniq, are competing in the cut-throat apparel segment, a market with very different dynamics from grocery retail, where [the group's] core strength lies. As it stands, we attach a lower probability to this adjacent business making a notable impact on group earnings in the future."

However, formats such as Medirite Plus and Petshop Science appeared more promising. "While their outlooks are exciting, we deem it more likely they will eventually prove to be incremental contributors towards the group's performance, rather than drivers of major growth," said Mitha.

Shoprite has had a five-year growth streak, outpacing its competitors, which are facing headwinds. It is growing at twice the pace of the market, while its Checkers brand, which competes with Woolworths, remains the fastest-growing grocer in the premium segment, said Engelbrecht.

Qubeka said Shoprite had become a stronger business over the past few years mostly owing to its flawless execution, but also because it had capitalised on challenges faced by its peers. With renewed management focus at both Pick n Pay and Spar, it would be interesting to see how the competitive landscape evolved over the next few years.

Mitha said it was pleasing to see Shoprite continue to invest heavily in its core supermarket business, especially from a position of strength, while its main competitor, Pick n Pay, continued to grapple with operational challenges and ongoing market share losses. "We anticipate Shoprite's management team will maintain their exceptional operational performance, positioning them, along with Woolworths Food and Spar, to further capitalise on Pick n Pay's difficulties."