Massmart sticks to expansion strategy

By Colleen Goko

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Massmart says it has not given up on Africa and will continue to invest in its business on the continent. CEO Guy Hayward said that despite the challenges faced by most African economies, there were signs the tide could yet change for the better.

Most local retailers have taken a cautious approach to Africa after the region posted its slowest growth rate in two decades in 2016. Hayward said on Thursday that while Massmart had faced headwinds in the six months ended 25 June, sales in most of its operations in Africa had grown when measured in local currencies.

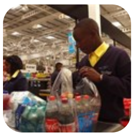
"In Ghana, Nigeria and Kenya, sales were robust from that perspective. The country we have to watch the closest [as a cause of concern] is Mozambique. We commit to store roll-outs years ahead and it's difficult to turn the process on and off based on events happening now."

In the period under review, Massmart's total sales were R42.5bn, an increase of 0.5% compared with the year-earlier period. Comparable store sales declined 1.6% with product inflation of 3.2%.

Total sales growth from the group's South African stores was 1.7%, but same-store sales dropped 0.2%. Operations outside of SA reported a decrease in sales of 11.9%, but in constant currencies sales increased 2.6%. The share price rose more than 3% in intraday trade.

Kagiso Asset Management associate portfolio manager Dirk van Vlaanderen said the group's results showed the challenges facing consumer-focused businesses in SA at the moment.

"Massmart's weak revenue performance highlights the very tough trading conditions for South African retailers, with consumers under severe pressure," he said. "Massmart did an excellent job of managing its cost base and thus limited the trading profit decline to only 15% despite flat revenue growth."



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Massmart said that operating expenses fell 0.2% to R7bn. The group said its near-term focus would be on "exceptional expense control and carefully evaluating capital expenditure".

Hayward said part of this would entail the closure of nonperforming stores. "Cost pressures going into the next half of our financial year will be slightly higher than we reported now. But we have introduced some measures that will benefit us for at least a year," he said.

These included negotiating well for lease renewals with landlords and optimising staffing and shift issues.

"Sadly, some of the nodes we operate in are not doing well in this economy and that has a negative affect on us. We will be closing stores in those towns."

Hayward said staff from closed stores were given the option to relocate or to be redeployed elsewhere in the country and stressed that Massmart remained a net employer.

He said that lower inflation and the recent interest rate cut could stimulate consumer confidence in the next six months.

Source: Business Day