Foreigner investors still keen on SA retail stock

With the search for yield set to continue, SA's favoured retail shares are likely to remain fashionable for foreign investors.

Retail counters have had a stellar run over the past few years driven by the insatiable appetite of offshore buyers lured by the growth story surrounding the rest of Africa and rising spending.

But last year was by no means a stellar season. Locally, retailers reported mediocre growth as a slowdown in job creation, rising living costs and debt signalled the end of the retail rush.

Earnings are not expected to shoot the lights out this year either, even with some respite from the cheaper fuel price, but this has done little to deter foreigners who are still pouring money into retail shares, resulting in strong valuations.

SA occupies a well-favoured status among emerging market investors, Investec Asset Management chief emerging markets dealer Ryan Wibberley said.

"The foreigners have a love affair with SA Inc - some of the industrial shares, banks, the retailers.

"With the EU (European Union) commencing some pretty aggressive quantitative easing there's another slew of money coming into world markets and SA as an emerging market stands to benefit from the pursuit of yield," he said.

"The peer group has problems. Russia is suffering from sanctions. They're also an oil producer faced with falling oil revenues."

China reported 7.4% growth for last year with India and Brazil facing a broad-based slowdown.

While concern continues to mount over SA's stunted growth, last year saw Woolworths' shares gain 48.2%, Shoprite rose

26.1% and even Pick n Pay, still in a turnaround, saw a 27.7% advancement.

"There is no doubt that the sector is still well favoured by foreigners and locals too. A lot of them have recovered from the sharp losses that we saw last year to life-time highs. They're not cheap but some of the dynamics that drive these shares and profits in the sector have changed considerably in the last couple of months," Mr Wibberley said.

Oversupply and reduced demand have seen oil prices halve in the past six months, from $110 a barrel to about $49. The Brent crude oil price was trading at $56.21 yesterday afternoon. This is driving down the cost of fuel in SA and is pushing inflation down, ultimately boosting consumers' purchasing power.

Barclays estimates that local consumers will save about R20bn this year due to the lower petrol prices. The plummeting oil price has also changed the interest rate outlook, which moves the consumer into a healthier position.

Absa Investments analyst Chris Gilmour reckons the biggest beneficiaries of extra money in consumers' pockets will be the clothing retailers. With the exception of Truworths, whose reliance on credit sales has made it particularly vulnerable, shares of listed clothing retailers have had a glorious run in the past year. The Foschini Group has gained 78.09%, Truworths a reasonable 17.7% and market darling Mr Price a whopping 89.4%.

"Mr Price is a different animal, maybe it's worth a 34 price:earnings ratio," Momentum portfolio manager Wayne McCurrie said. For the past six years, the cheap 'n chic retailer has reported earnings growth of about 24%, each year.

"These chaps seem to be really getting their merchandising right. Other companies are driven by how much money the consumer has and how well the consumer is doing. It's not the case at Mr Price, they're doing well consistently," he said.

With the fervent interest in retail shares has come high valuations, which according to some are unsustainable given the moderation of growth in the sector and the cyclical nature of retail groups.

"The petrol price certainly helps but the economy is only growing at 2%. Retail shares have run incredibly hard. They are already expensive. I think (investors) are paying far too much for these shares," Mr McCurrie said.

With Nigeria in recession due to the low oil price, and with most African currencies having weakened against the rand, results from retailers' rest-of-Africa operations are likely to be poor over the next year or two as the oil price recovers.

For now, though, the dalliance with local shares continues. JSE data indicate that in the week ending January 23 foreigners were net buyers of R552m worth of South African shares after net sales of R339m in the same period last year.

Source: Business Day via I-Net Bridge