Highs, lows for retail, gloom for shoppers

By Zeenat Moorad

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Despite mediocre earnings growth, valuations of local retail counters remain high as foreign buyers snap up shares in their pursuit of attractive yields...

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But sector rotation into cheaper industrials or resources by investors could be in store.

The biggest movers this year have been Woolworths, Pick n Pay and Spar Group with share price gains of 29.5%, 24.2% and 18.4% respectively. Only Mr Price and Massmart's shares have lost ground, falling 8.7% and 20.7% respectively.

Rising input costs have put pressure on profit margins and sales volumes have slowed for most retailers as household budgets remain under strain because of debt and rising power, fuel and food costs. The weak rand, unreliable energy supply and growing unemployment have seen consumer confidence drop to a 14-year low.

Retail shares were vulnerable, said Sasfin Securities senior retail analyst Alec Abraham.

"Given the earnings growth that retailers have been delivering, I'm convinced the price: earnings ratios are too high and I think we might see some pressure, particularly if foreigners start selling out," he said.

The JSE food and drug retailers' index and general retailers' index have risen by 5.25% and 9.51%. Clicks is up 13.9% this year and Cashbuild's shares have surged as much as 91.5%.

Retail stocks remain favourites for investors attracted by dividend yields of 4%-5%.

"If you're an investor and money's costing you nothing in the US, and they're paying you to borrow money in Europe, a 5% yield is still good, there is still a reason to come here," Abraham said. For bonds, in which foreign participation has also been high, a weakening currency spells trouble. JSE data shows that foreign investors sold a net R2.9bn of South African bonds last month, from a net inflow of R6.8bn the previous month.

Investor appetite remains shaky as commodity prices tumble over concerns about China's slowdown and possible policy tightening in the US.

The rand remains fragile. Wayne McCurrie, Momentum portfolio manager, said it would be difficult for SA to achieve even 1% growth this year.

"Everything is cyclical though, we're going through tough times now. It's actually got very little to do with SA. Commodity prices are falling worldwide and you can't blame the government for that - for electricity maybe, yes. At least two-thirds of the problems in our economy actually sit outside SA - things we can't control," McCurrie said. There seems little respite due for shoppers.

"I don't see any catalyst that is going to make consumers be less under pressure. Utilities are still going up, there is potentially another interest rate increase, likely further job losses and there's not a strong case for a significant uptake in real wage growth. Guys are saying the credit environment looks better. So what? People cannot afford to borrow," Abraham said.

Source: Business Day