

# Choppies pays hefty price for expansion

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Choppies Enterprises - the leading supermarket grocery retailer in Botswana - continued with its expansion strategy into the rest of Africa in the year to end-June, but the moves into new territories came with a more than 50% cost to the company's earnings.



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Choppies reported headline earnings per share of 7.25 thebe (about 9.48c) in the period under review, down from 16.92 thebe a year earlier. Turnover, however, increased 24% to 7.4bn pula, while profit rose 12% to 1.44bn pula.

CEO Ramachandran Ottapathu said Choppies's full-year performance had been affected by pre-operative expenses in Zambia and Kenya. He said the company had also incurred losses in Zimbabwe due to depressed economic conditions, which resulted in a shortage of cash in circulation. The knock-on effect had been a decline in purchases per transaction.

"Our operations in Zambia and Kenya will remain loss making in the 2017 financial year, as we continue to build our store base and invest in operational infrastructures. In Zimbabwe, we anticipate returning to profitability in the coming year," Ottapathu said.

Choppies, not unlike Shoprite — which is the biggest retailer in Africa — has ambitious growth targets for the continent. The retailer lists its focus as East Africa, with emphasis on Tanzania and Kenya. Shoprite has yet to successfully branch

out in East Africa. According to PwC, Kenya and Tanzania are among 10 countries with high potential for retail growth in sub-Saharan Africa.

Consumer spending patterns in these countries are projected to almost double in the next three years, creating more business opportunities for the retail sector, including supermarkets and dealers in electronics and food and beverages.

Ottapathu said Choppies expected to commence operations in Tanzania and Mozambique in the coming months and planned to roll out more than 20 stores in all its regions by the close of the 2017 financial year.

Choppies shares listed on the JSE at R4.90 in May 2015. The share price peaked at R6.50 in December, but has since declined to below its listing price, as conditions in the retail industry have proved to be anything but ideal in Africa.

Choppies shares are down 36% year to date, at R4.09. The retailer declared a gross final dividend of 2.82 thebe.

**Source:** Business Day

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