Abil confident Ellerines will deliver value

African Bank Investments Ltd (Abil) says the reconfiguration of its Ellerines furniture business, including its financial services activities, is proceeding within expected timeframes and it remains confident of its ability to deliver value to customers and shareholders.

However, it said the expected earnings of the Ellerines business unit (excluding the charge for the BEE programme) for each of the third and fourth quarters respectively will be below that reported for the three months to 31 March 2008.

It said in a trading update for the quarter ended June that the challenging economic environment brought about by rising inflation, and high interest rates has negatively impacted the Ellerines customer to a far larger degree than the African Bank customer.

In addition, the intentional tightening of credit granting criteria post the acquisition by Abil has resulted in sales of merchandise for the six months ended June 2008 being 4.3% lower than the equivalent period last year.

After adjusting for new and closed stores, the like for like decrease in sales for this period was 5.2%. Inflation over this period was an average of 10.4%. Sales within the brands that target the lower income customer were most adversely affected, decreasing by 11.6%.

The brands that target consumers in the middle and higher income sector were less affected by the tightening of the credit underwriting and had an increase in sales of 1.4% and 0.1% respectively.

"The business continues to focus on strategies to compensate for these difficult trading conditions, including further segmentation of the credit risk underwriting models, price reductions in the cost of credit and credit life insurance for the majority of its customers and more aggressive product pricing and marketing campaigns," the group said.

The percentage of sales that were facilitated by credit fell to 44.0%, down from 55.7% in the equivalent period last year. Consequently, the advances balance declined marginally from R5,308 billion at take-on in January 2008 to R5,266 billion (net of the fair value adjustment) at June 2008.

"The most recent Ellerines vintages are trending lower. Focused collection efforts are beginning to have the desired effect on the vintages as evidenced by the downward turn in their trajectory. The inferior quality business previously written is now feeding through into the NPLs (non-performing loans) and this combined with flat advances has resulted in the NPLs to gross advances ratio increasing to 31.7% in June 2008, from the 25.3% reported at the interims for March 2008. NPL coverage remains steady at 86.3% (86.1% in March 2008).

"One of the key strategic focuses is that of reducing the cost base of the business. The recent SENS announcement of 1 August 2008 relating to the brand integration and management structure rationalisation is the start of this process. The result of these and other cost saving initiatives will become evident from the 2009 financial year," Abil said.

It added: "Three key factors will significantly affect the financial results of Ellerines to September 2008; the depressed sales levels and the concomitant affect on margin and credit related income, the high levels of debtors costs brought about by liberal credit granting and the exclusion of the most profitable trading period being October to December.

"Accordingly, the expected earnings of the Ellerines business unit (excluding the charge for the BEE programme) for each of the 3rd and 4th quarters respectively will be below that reported for the 3 months to 31 March 2008."

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