Truworths earnings disappoint investors

By Zeenat Moorad

24 Jul 2013

Following Shoprite and Massmart, which both indicated a slowdown in growth, shares in Truworths slid more than 7% on Monday (22 July) after the fashion retailer's earnings forecast fell short of market expectations.

With employment creation still lagging, consumers remain challenged by increased living expenses which are eroding disposable income in Africa's largest economy.

While Truworths has been conservative, applying stricter credit granting policies, the credit environment deteriorated in its full year, owing to rising levels of consumer indebtedness. At the end of the 52-week period ended June, the group's gross trade receivables or money owed to it, rose by 11.3% to R 4.2bn relative to the previous year.

The company, which is heavily reliant on credit sales, expects headline earnings per share to rise by between 7% and 9% for the 52-week period, relative to the prior 53-week period for last year.

This equates to a rise of 10% and 13% respectively, if the effect of the additional trading week in the prior period is excluded, which is still below the group's 16% rise in headline earnings per share for the 53-week period last year.

Earnings squeezed

36One Asset Management analyst Daniel Isaacs said the update was "terrible".

"They either got squeezed on their clothing margin and/or the bad debt charges, which have started to pick up. It is probably a bit of both. We have also had an unseasonably warm winter and that always affects clothing retailers," he said.

In the period, sales at Truworths increased by 10.7% to R 10.1bn, from 12.9% in the comparable period, while product inflation averaged 2%. Credit sales contributed 72% to sales. The company, headed by chief executive Michael Mark, said that like-for-like, sales grew by 5.7%, from 7.8% fin the previous year.

Along with concerns around credit, the consumer environment was very tough to drive at this stage, says Avior Research analyst Michael McLeod.

"Truworths' book has grown more slowly, but they did note in line with what we saw in the first half, that the credit environment had deteriorated, which is obviously a concern from an investor perspective," he said.

Drikus Combrinck, portfolio manager at PSG Konsult, said while Truworths had missed estimates, the movement in the share price was somewhat "inflated."

"The resources are performing well because we have a technical level being broken on the gold price and Amplats came out with a better than expected interim statement. So we have classical sector rotation in the market at the moment," he said.

Source: Business Day via I-Net Bridge