

Low food inflation may bite Shoprite

Florence de Vries

SHOPRITE, the largest local food retailer by turnover, continued to benefit significantly from its focus on value offerings in the 53 week period to June, boosting total turnover by 13.6 percent to R67.4 billion.

However, retail analysts warned that if Shoprite's low internal food inflation did not pick up soon, an earnings downgrade could be on the horizon.

Nino Frodema, a portfolio manager at Metropolitan Asset Managers, said while the market had expected Shoprite's internal food inflation to fall, the speed and magnitude of the fall was disappointing. The company's turnover growth slowed in the second half of the year to 10.3 percent from 11.9 percent in the first half.

"This must be viewed against internal food inflation that reduced from 4.2 percent in the first six months to 0.2 percent in the second," Shoprite said in a statement.

Frodema noted: "If internal food inflation remains around these low levels and (doesn't) pick up soon we find it hard to believe that margins won't come under pressure and that an earnings downgrade for Shoprite is on the horizon."

Nazeem Hendricks, an equity analyst at Argon Asset Management, said he was equally concerned about the low levels of food inflation.

"However, interestingly Shoprite's volumes increased 2.6 percent whereas Pick n Pay was not seeing any volume increases," he said.

Warren Buys, an equity analyst from Cadiz Asset Management, said it seemed as if the

Shoprite

Share price, rand Apr 1-Jul 15



company had captured share from other players, according to market surveys, and that a clearly defined value offering may have appealed to consumers in difficult times.

Frodema said market share numbers were a contentious issue between food retailers as each one focused on the market share number that made it look better than the others.

The battle over retail market share between Shoprite and Pick n Pay started in October last year when Shoprite claimed it had 31.67 percent of the market, giving it the largest share of all the supermarket groups in South Africa.

But Pick n Pay hit back saying Nielsen had backed its figures, which were released at the group's year-end results presentation in October last year. In January, a Nielsen report showed Pick n Pay was the leader, with 34.7 percent.

Analysts saw Shoprite's 4.8 percent like-for-like growth in the period under review as "reasonable" as Pick n Pay was "finding it difficult to achieve similar types of growth".

