

Pepkor performance 'outshines listed peers'

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It's clear from the latest Brait investment presentation that the delisting of fashion retailing conglomerate Pepkor in 2004 robbed the JSE of an outstanding consumer business.



Pep Stores is doing well, locally and in Africa.

Image: [CapeGate](#)

The Pepkor that emerged nine years later is vastly different to the listed company of 2004. Not only has Pepkor shifted into African and international markets, it has also diversified its core fashion offering to include cellular sales and other non-clothing accessories.

Investors these days can only access Pepkor - which still has Christo Wiese as a major shareholder - via investment company Brait. Pepkor anchors Brait's investment portfolio, representing - with an estimated value of R10.15bn - almost 60% of net asset value.

In a tough trading environment where listed fashion retailers have been battling to achieve double-digit sales growth, Brait was comfortable increasing the value of its Pepkor stake to more than 30% by the end of September.

While this may raise eyebrows, Brait's latest investment presentation (covering the half-year to end September) convincingly breaks down Pepkor's year to June performance to justify the increase in value.

Pep Stores and Ackermans trading well

Pepkor - trading mainly through Pep Stores and Ackermans in SA, Pepco in Eastern Europe and Best & Less in Australia - pushed up sales 27% to R33.6bn. The company traded on a margin of 11.2%, and lifted pretax profits 31% to R2.88bn. Cash flow from operations was 13% higher at R3.75bn, which represented a reassuring 99.9% of earnings before interest, tax, depreciation and amortisation.

Pepkor's operating performance makes most of its listed peers look dowdy by comparison. Pepkor's core southern African sales - taken in isolation - were not that different from Mr Price, Truworths and Foschini.

Pep's local sales increased 15.8% to R14.4bn following the opening of 101 new stores (bringing the chain to 1,578 stores). Ackermans' sales in southern Africa were up 11% to R5.3bn with 18 new stores.

Although Pepkor has exposure to high-growth living standard measure 1 to 6 categories, Brait's chief executive John Gnodde said this week there were several factors hindering the company's local growth, including the effect of unsecured lending and pressure on the growth in government grants.

In the past financial year Pepkor's retail space increased 15% to more than 1.6m square metres and the number of retail outlets was up 8% to 3,418 stores.

Pep Africa shows much promise with a 32% increase in revenue to R1.3bn. Gnodde describes the African markets - where Pep Africa operates across 10 countries - as an exciting opportunity, but a challenging environment. He argues it is easier to cross geographies as a cash rather than credit retailer.

Angola and Nigeria strong

But he cautions: "Each country presents its own set of hurdles and (Pep) needs a sizeable presence in each country to get a proper read." He says although African markets offer higher growth prospects, Pep only achieves enhanced margins once critical mass is reached.

Much has been made of Pep Africa's recent push into Nigeria, Africa's most populated country. Gnodde says it is still early days in Nigeria, but adds that Pep is trading well in a challenging environment.



Ackermans producing good results. Image: [Sandton City](#)

The Brait investment presentation showed that in the year to end June, there were 15 new store openings in Nigeria and eight in Angola - representing the bulk of the 25 new stores opened by Pep Africa (which now operates 152 stores).

Gnodde says Pep Africa is on track with a three-year store-growth target to exceed a 15% compound annual growth rate.

Pepkor's second-biggest market is lumped under Southeast Asia, but is underpinned by the Best & Less offering in Australia, as well as recent acquisition Harris Scarfe.

The 276 outlets in this hub generated some R7.2bn in revenue, up 62% on last year. Gnodde concedes this top-line growth is spurred mainly by the recent Harris Scarfe acquisition, but believes there is also opportunity for margin improvement in Australia in the financial year ahead.

Pepkor's Pepco - which currently trades in Poland and Slovakia through a 451-store network - is the fastest-growing division, with revenue growing 56% following 92 new stores opening.

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