

# Truworths feels customer pressure

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Truworths' share price jumped almost 5% by the close of the JSE on Thursday despite the retailer reporting a contraction in earnings and little growth in full-year profit.



Truworths CEO Michael Mark. Image credit: Ruvan Boshoff via *Business Live*

In the 53 weeks ended 2 July, diluted headline earnings fell 0.8% to 661c. Operating profit increased 1% to R4.2bn from the year-earlier period. Truworths shares closed 4.53% higher at R79.86.

CEO Michael Mark said that the group's domestic performance had been affected by pressure on consumer spending in a recessionary environment, while the affordability assessment regulations had continued to restrict new account growth and limit account sales.

Mark said the picture in the group's UK operations was not any better as the aftermath of the Brexit vote had contributed to volatile trading conditions over the past year. "The retail trading environment locally was also impacted by aggressive and unsustainable pricing," said Mark.

This had "created stress in the market and led to increased markdown and promotional activity, closure of retailers and down-scaling of others". Group retail sales for the period rose 8.6% to R18.5bn. Excluding UK shoe retailer Office, cash sales fell 2.1% and account sales grew 2.4%.

Truworths said account sales were 70% of sales, from 69% in the year-earlier period. "Account-granting strategies have been implemented to mitigate the impact of the regulations and have largely arrested the decline in the number of active accounts in the past few months," said Mark.

"We expect our active account base to stabilise in the 2018 financial year," he said.

The group's retail footprint increased to 937 stores following the opening of eight new stores during the year.

Trading space is expected to increase about 5% in 2018 - Truworths 5% and Office 2% - buoyed by the launch of the Office footwear chain in SA, with the first 10 stores being opened in August.

"Consumer-facing businesses have a challenging period ahead, with a deterioration in consumer confidence and the weak economy likely to continue to weigh on consumer willingness and ability to spend during the rest of the year," Kagiso Asset Management associate portfolio manager Dirk van Vlaanderen said.

*Source: Business Day*

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