

Choppies extends African footprint with Kenya deal

Newly listed "food and staples" retailer Choppies (CHP), which is primarily based in Botswana, has wasted no time in delivering on its promises to expand rapidly into new markets in Africa.



Choppies store - image: choppies.co.bw

On Monday, 1 June 2015, the company announced a conditional agreement with Ukwala Supermarkets to acquire 10 outlets in Kenya for about R120m. The deal is not huge - representing less than 2% of Choppies' R7.1bn market capitalisation - but it does signal an intent around using acquisitions to build a diversified geographical presence.

The company, which already has a niche presence in SA and Zimbabwe, has set a store expansion target of 200 stores across at least six African countries by the end of next year.

The existing store base is 125 across the three countries. However, pre-listing documentation showed Choppies was also keen to establish a presence in Tanzania and Zambia, where less than 15% of the retail market is deemed "formal".

The company said the proposed deal with Ukwala provided an immediate footprint of established stores and a platform for growth in Kenya.

The company disclosed that three of the supermarkets were located in the bustling capital Nairobi, two in Nakuru and five in the port city of Kisumu.

The stores will be rebranded as Choppies.

The company will also operate with a 25% local partner in Kenya in terms of a joint-venture agreement with the promoters Export Trading Group, an agricultural commodities trading and logistics business.

The market warmed to the deal, with Choppies shares up more than 3% in brisk trade.

Alpha Wealth small cap expert Keith McLachlan, however, was more wary of the "African story".

He said retailers mostly battled to export their business models from their core home markets to other territories.

McLachlan said that even though Choppies had started building a presence in SA and Zimbabwe, these operations remain marginal - accounting for 40% of Choppies' store count but only 14% of profits.

He said Shoprite was a more attractive investment alternative to Choppies.

"It's been around longer in African markets, is much larger and it trades at a lower earnings multiple than Choppies."

Source: BDpro via I-Net Bridge

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