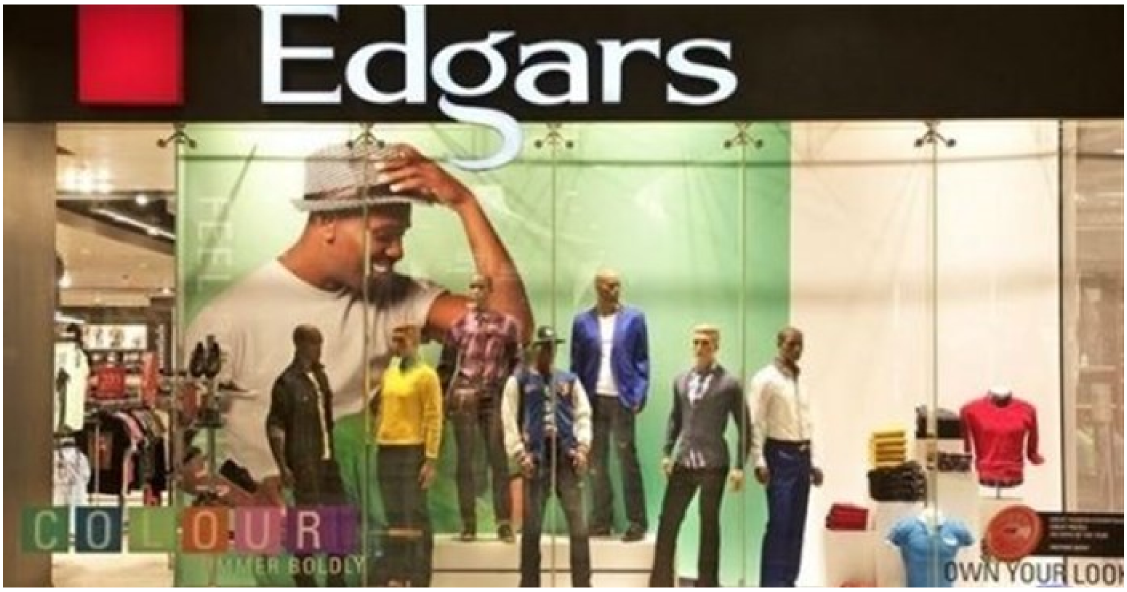
Edcon fails to make the grade

Unlisted retail group Edcon has recorded a poor quarterly performance with a decline in sales and revenue.



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On Wednesday, the group reported a 9.4% drop in retail sales for the third quarter while total group revenues decreased 8% to R8.2bn owing to a decrease in retail sales of R795m compared with the prior period.

Edcon attributed the drop in retail sales to a reduction in promotion activity compared with the third quarter of 2017, following the introduction of better entry-price points in fiscal 2017. The quarterly performance was also affected by the sale of the Legit business, the exit of nonprofitable international brands and the closure of unprofitable stores.

Damon Buss, an analyst at Electus Fund Managers, said the retailer was still losing substantial market share compared with its listed peers despite the lower entry-price points as Edcon's like-for-like store sales had declined 5% versus its listed competitors' growth of 0.2% in the same period.

"Clearly Edcon have not done enough to improve the product and shopping experience to entice customers back into their stores," Buss said.

The Edgars division, which targets middle- to upper-income customers, reported a 6.9% decrease in retail sales to R3.5bn in the third quarter of its 2018 financial year. Retail sales at Jet, its discount and value merchandise division, targeted at lower- to middle-income customers, decreased by R90m to R3.2bn. Retail sales in CNA, its specialty division, decreased 9.8%.

Newly appointed Edcon CEO Grant Pattison said while retail sales were negatively affected by weak consumer demand and fierce price competition, he was pleased that Edgars and Jet had continued to trade positively in ladieswear and footwear.

Contrary to close competitor Woolworths, which experienced a decline in retail sales in their ladieswear, Edgars and Jet achieved positive retail sales growth in ladieswear and footwear for the third consecutive quarter, which the group said was a realisation of the benefits from new strategies introduced in these categories.

Edcon's earnings before interest, taxes, depreciation and amortisation (ebitda) decreased by R283m to R619m, hit by a weak trading performance and additional operating costs in the credit and financial services division of R153m.

It said R23m of this amount related to additional costs of administering Edcon's own funded trade receivables book and R130m related to net bad debts and an increase in the trade receivable provisions.

Portfolio manager at Gryphon Asset managers Casparus Treurnicht was wary of the figures produced and said the only reason he could "fathom the in-house trade receivables book growth was beyond expectations and is due to indebted customers not settling their accounts".

Treurnicht said the extra costs mentioned on the ebitda regarding increased costs to service their book perhaps proved this to be valid. "This is something you don't want to see in a business that is trying to satisfy its funders," he said.

Source: Business Day