Italtile bucks trend as turnover soars

By Mark Allix

8 Feb 2018

Italtile saw trading profit leap as turnover soared in the six months to December 2017, despite consumer sentiment in SA being "by and large down".

"The longer-term story is definitely around the growth agenda," Italtile CEO Jan Potgieter said on Wednesday. The group would open more stores in SA and expand in East Africa and was exploring manufacturing prospects elsewhere in Africa, Potgieter said.

The home-finishings group pushed turnover up 22% to R4.3bn in the six months ended December 2017 as trading profit shot up 21% to R716m. Headline earnings per share of 48.6c were up 5%, as net cash of R562m rocketed 209%.

Italtile chief financial officer Brandon Wood said the results were affected by the acquisition of Ceramic Industries and a partially underwritten renounceable rights offer. But the buyout - which had also come with a majority stake in Ezee Tile Adhesives Manufacturing - would centralise warehousing and distribution across the group and "massive gains were to be made", Wood said.

Italtile has a network of 174 stores, 19 of which are located in the rest of Africa. The retail business is supported by a vertically integrated supply chain comprising key manufacturing and import operations and an extensive property portfolio. Italtile's numbers were in line with expectations and slightly better than the company was forecasting, said Anthony Clark, an analyst at Vunani Securities.

The "real big news" was a proposed "dramatic expansion" of the group into the rest of Africa, he said. This included the roll-out of online stores to boost bricks and mortar operations.

Poor supply chain issues had been resolved and the lower end TopT and higher-end Italtile brands were doing "fantastically well", although conditions for the mid-market CTM brand remained "very tough" and were reliant on better economic growth in SA, Clark said.

"[The growth] is sustainable and will possibly get better," he said, especially after the buyout by Italtile of Ceramic Industries, a tile, sanitaryware and bathware manufacturer. This had boosted group revenues and provided a platform for further vertically integrating operations.

Wood said political uncertainty in SA meant new-build housing growth was limited. Homeowners in the renovations market continued to invest in their properties but at lower rates of spending. This had caused Italtile to improve the consumer experience in its stores and boost working capital through aggressive inventory management and cost controls.

"We are really a fashion retailer, so [we] improved product ranges and refitted stores," Wood said. The group's net asset value was up 29%, as dividends rose 6% in the period. But Wood said that despite an improved political and economic outlook for SA "the macroeconomic environment will remain challenging" in the short term.

"However, management anticipates that the second half of the year will be stronger than the second half of the prior year ... [this] is based on the expectation that further growth momentum will be derived from the initiatives implemented and action taken in the period."

The group planned to open at least another 10 stores in the next six months, bringing the total number opened during the full year to 22, exceeding the 20 stores previously committed to.

Source: Business Day