

**OMIGSA Comment – Yasmine Ganief, Analyst: Industrials**

**Shoprite steams ahead on Africa’s growth**



Shoprite released excellent results once again, despite the many headwinds against it, including a low-inflation environment, high job losses, low economic growth and fierce competition in the food retail industry. Despite all this, it managed to increase headline EPS (earnings per share) by 16% and turnover by 14%. Most of this growth was driven by continued volume growth and market share gain from competitors such as Pick ‘n Pay.



In its core business, Shoprite performed strongly, but the stars of the show were its African operations and the growth in *Usave*, the group’s lower-end offering. *Usave* grew sales by over 34% and continues to roll out stores aggressively. The results also benefitted from an extra trading week, which will not be the case in its next financial year.

The African operations grew sales by 18% in constant currency terms, although in rand terms this translated into an 8% decline. However, the real positive surprise was the jump in operating profits of the African operations for the year, especially in the second half of the financial year, when margins rose 8.2%.

Going forward, the roll-out in Africa has gathered pace, with management securing some locations for stores. However, finding suitable sites in Africa and logistical issues will remain a challenge for businesses like Shoprite, constraining growth to some extent. Checkers (part of the Shoprite Group) is rapidly gaining market share among the upper LSMs (7-10), as a result of clever marketing, which entails focusing on their niche products such as a range of cheeses, wines, meats and other value-added products. The Shoprite growth story remains intact, and it will be a company to keep an eye on going forward.

**27 August - 02 Sept 2010 in a nutshell**

**Global:** Global equities rebounded strongly this week, as better-than-expected economic numbers from the US tempered investors’ concerns about the weak recovery of the global economy. The S&P 500 in the US rallied 4.11%, while the European market shares surged 4.14% and emerging market stocks rose 3.00%.

**South Africa:** Positive news from the US spurred the local market higher this week, with the FTSE/JSE All Share Index climbing 3.60%. The biggest winners were financials, collecting a healthy 3.90%.

**Markets and Economics - Highlights**

**Global**

- U.S. consumer confidence increased more than expected in August, pulled up by expectations about future economic activity, according to a report released this week. The Conference Board, a private research group, said its index of consumer confidence rose to 53.5 this month from a revised 51.0 points in July. The August reading was better than the 51.0 expected by economists surveyed by Dow Jones Newswires.
- The European Central Bank (ECB) raised its growth forecast for this year and next after a

healthy second quarter performance from the 16 countries that use the euro – but the bank made clear that the outlook remained uncertain and kept up its efforts to offer short-term loans to banks.

- Manufacturing in Brazil, Russia, India and China (BRIC states) powered ahead last month. China's manufacturing surveys showed that activity picked up last month after a government-engineered slowdown, and Indian factories stayed in top gear after Asia's third-largest economy grew at its fastest rate in nearly three years in the latest quarter.

### South Africa

- Manufacturing activity expanded marginally last month for the first time since May, but details of a survey suggested the economy's second-biggest sector is still stagnant. The purchasing managers index (PMI) from Kagiso Securities edged up 0.8% points to 50.3 – back above the neutral 50 level, which marks the cutoff between expansion and contraction.
- Business has joined the clamour for another cut in interest rates after new data showed borrowing by companies fell in July, signaling private sector investment will stay on the back foot in the near term. Overall, private sector credit extension rose 2% versus July last year, accelerating from 0.9% in June and well above consensus forecasts for a 1.5% rise.
- New vehicle sales leapt last month, with sales more than a third higher than the corresponding period last year – this despite the industry facing numerous challenges. The National Association of Automobile Manufacturers of SA (Naamsa) figures for last month showed that sales surged 36.9% compared with August last year. Sales were 12.7% higher than in July.

#### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 02.09.2010	% Performance Return
United States	S & P 500 (US\$)	4.11%	1,090	-2.25%
Europe	Euro Stoxx 50 (Euro)	4.14%	2,715	-8.47%
Emerging Mkts	MSCI Emerg Mkts (US\$)	3.00%	995	0.56%
South Africa	FTSE/JSE All Share (ZAR)	3.60%	27,841	0.63%
Global	MSCI (US\$)	3.90%	1,119	-4.20%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.09%	7.23	-2.17%
ZAR/Pound	Rand/£ (ZAR)	-1.77%	11.12	-6.24%
ZAR/Euro	Rand/Euro (ZAR)	-0.11%	9.26	-11.73%
JSE	Industrials	3.50%	26,230	3.90%
JSE	Financials	3.90%	20,230	7.51%
JSE	Resources 20	3.19%	46,406	-9.16%
JSE	Small Companies	1.31%	28,907	3.66%
JSE	Listed Property	0.82%	370	14.55%
JSE	RAFI® ALSI	3.98%	5,850	1.70%
JSE	RAFI® 40	3.68%	5,606	0.25%
JSE	SWIX	3.70%	5,915	3.14%

Editor: [kbuthelezi@omigsa.com](mailto:kbuthelezi@omigsa.com)

OMIGSA: Tel. 021 509 7622

[www.omigsa.com](http://www.omigsa.com)