APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Pepkor HY 2026 Results

Share Price	R22.04
Date	28 May 2026

RESULTS SUMMARY

Pepkor delivered a strong interim 2026 performance, with revenue increasing 13.2% to R54.8bn. Growth was broad-based growth across its Clothing and General Merchandise business, Financial Services, FLASH and the Informal Market segment. Earnings also remained solid, with diluted HEPS increasing 10.1% to 92c, largely in line with expectations.

Its core retail businesses remained resilient despite a highly promotional retail environment and low inflation. Clothing and General Merchandise revenue increased 11.6%, while Furniture, Appliances and Electronics revenue increased 14.4%. Financial Services was the standout performer, with revenue growth of 41.6%.

Operating margins came under some pressure as higher debtor costs, acquisition expenses and ongoing investments in growth initiatives impacted profitability. Management expects trading conditions to remain challenging in the near term, particularly given continued promotional activity across the retail sector. However, the group expects the quality of its debtors' book to improve over time through tighter credit controls and improved collections.

Looking ahead, management remains confident of delivering around 10% HEPS growth for the full year, supported by continued momentum in Financial Services, FLASH and insurance products.

Overall, Pepkor remains well positioned relative to peers, supported by its value-focused offering, scale advantages and growing contribution from higher-margin Financial Services businesses. While margins in the core retail business remain under pressure, we remain constructive on the long-term outlook as the group continues to diversify earnings and gain market share.

OUR LONG-TERM INVESTMENT VIEW

- Pepkor is one of South Africa's largest value retailers, with its diversified portfolio and defensive discount positioning supporting resilient earnings and continued market share gains across economic cycles
- Leveraging their scale, Pepkor has successfully evolved beyond traditional apparel retail, with Financial Services, FLASH and fintech operations becoming increasingly important higher-margin earnings drivers.
- The group's scale, sourcing capabilities, and low-price positioning continue to support competitiveness, while ongoing investment in logistics, digital capabilities and insurance products should enhance margins and free cash flow over time
- The Financial Services, FLASH, and insurance offerings to contribute a growing share of profitability, supporting stronger earnings growth and returns relative to South African retail peers over the medium term
- We expect Pepkor can deliver 10–15% headline earnings growth over the medium term, in line with management's guidance, supported by its diversified earnings base, growing fintech exposure and continued market share gains

UNPACKING THE HY 2026 RESULTS

High level numbers

- **Group sales** increased 13.2% to R54.8bn, with growth across all divisions despite a difficult and highly promotional retail environment
- **Gross margin** expanded 170bps to 40.8%, benefiting from favourable mix effects in Financial Services and FLASH
- **Trading profit** increased 9.4% to R6.3bn despite continued margin pressure in the core retail

Operational and strategic highlights

During the period, Pepkor continued to benefit from its defensive discount positioning, with management highlighting resilient consumer demand despite a difficult retail backdrop and elevated promotional activity across the sector.

Pepkor also tightened credit approval criteria during the period following weaker collections in parts of the debtors' book. Management expects operations

- **Headline earnings per share (HEPS)** increased 10.1% to 92.0 cents, broadly in line with market expectations
- **Cash generation** remained strong, with operating cash flow increasing 15.1% to R4.1bn.

Operating segment performance

- **Clothing and General Merchandise (CGM)** revenue increased 11.6%, with like-for-like growth of 3.6%, supported by low price inflation of 1.4% and volume growth of 2.2%. PEP continued to benefit from its strong value positioning, while Ackermans faced increased competition across fashion and Kids & Baby categories
- **Furniture, Appliances and Electronics (FAE)** revenue increased 14.4%, with like-for-like growth of 3.6%. supported by resilient demand across FAE despite constrained consumer spending. The segment also benefited from contributions from recent acquisitions and continued store expansion
- **Financial Services** remained the standout performer, with revenue growth of 41.6% and operating profit growth of 63.4%, now contributing 11% of group operating profit as demand for credit, insurance and fintech-related offerings remained strong
- **The Informal Market segment (FLASH)** delivered revenue growth of 10.4%, while operating profit increased 23.5%, supported by higher transaction volumes, product mix benefits and continued expansion of digital and fintech-related services

provisioning levels and debtor costs to improve gradually as remedial measures gain traction.

Looking ahead

Trading conditions are expected to remain challenging, particularly given low inflation and continued promotional activity across South African apparel retail. Sales growth for the first eight weeks after the reporting period slowed to 3.7% against a high base of 10.8% in the prior year. Despite this, management remains confident in delivering around 10% HEPS growth in FY26, primarily supported by continued momentum in Financial Services.

Pepkor remains well positioned relative to peers given its defensive discount positioning, scale advantages, and growing contribution from higher-margin Financial Services businesses. While margins in the core retail business remain under pressure in the short term, we remain constructive on the long-term outlook as the group continues to diversify earnings and gain market share.

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