

INVESTMENT COMMENTARY (continued)

3. International retailers

- Although overall retail sales growth has been softer since mid-2012 (Figure 2), apparel retail competition has been increasing with international retailers expanding their SA presence.
- Over the past several years, with the exception of TFG (changing mix), GPMs for SA apparel retailers have started to trend downwards, which is a likely indication of increasing competition in sector.
- Although, the entire fashion market is becoming more competitive, competition appears to be more concentrated in the more value-oriented retail segment.

Figure 2: SA retail sales Y/Y (%)



Source: www.tradingeconomics.com ; Statistics South Africa

CONCLUSION

- What is clear to us, is that relative to the previous 10 years, during the next 5 years the growth drivers are going to be more challenging for the SA apparel retail sector.
- The tailwinds they previously benefited from (i.e. real growth in consumer disposable income, urbanisation, LSM migration, unsecured lending boom, store rollouts, government social transfers), have now played out.
- However, the industry faces a couple of headwinds, with the biggest concern being the increase in international competition.
- While there have already been casualties so far such as the Platinum Group (Hilton Weiner, Aca Joe, Urban, Jenni Button and Vertigo), others like the Edcon Group have been limping along.
- As a result, at this point in time, while several apparel retailers look attractive from a valuation perspective, stock-picking is of even greater importance, as not all are likely to fare as well.