



01 June 2016

A big week for South Africa, as Standard & Poor's (S&P) decide whether to downgrade us as an investment destination, or not. A downgrade could be the sort of strong medicine from which the patient will find it difficult to recover. Hold onto hope, and enjoy the read in the meantime.

RETAILERS AND WHOLESALERS

Massmart

Classic rock, meets classic hard place

What is it with Massmart and their 21 weeks? In the 21 weeks since their last results, they tell us, they have grown sales 9% since the same period last year. The big performer in the group was Masscash Retail, which grew 21.4%, or 13.3% excluding new stores. Food and liquor were the star categories, coming through with like-for-like store sales of 11.5%, while general merchandise and home improvement, not so much, growing at just 0.5%. According to CEO Guy Hayward, our economy is in a "classic defensive cycle" with discretionary spending constrained as punters come to terms with food inflation running at 11.3% for reasons already documented ad nauseam. This quite naturally has put the squeeze on the Massbuild division.

Comment: Refreshing honesty as always from the Men in Black.

[Business Day 27/05/16](#)

Woolworths

Let the Good times roll

Hard to believe, but the Dapper One has been on its Good Business Journey (GBJ) since 2007, proceeding at a sprightly pace in a pair of responsibly-sourced and handsomely-stitched leather shoes. To recap: they've reduced their environmental impact and increased their social and economic impact across the value chain, focusing on 8 key areas from energy, water, waste to health and wellness, with over 200 targets, and they've reportedly managed to achieve a handsome R567m in savings, too. Now they've announced their GBJ goals for 2020, and they're at least as ambitious: for the first time, Woolworths will incorporate their foreign holdings – in Africa and Australia – into the targets, which include saving 500bn litres of water over 5 years; ensuring the company halves its energy impact by 2020, achieving 100% clean energy by 2030 and contributing R3.5bn across the Group to communities.

Comment: Ambitious and inspiring goals.

[Woolworths Press Release 24/05/16](#)

SPAR

Swiss banking

Some further observations about the fortunes of SPAR, on the very nice results of whom we reported last week. The acquisition of a 60% stake in SPAR Switzerland from the Leuthold family Swiss retailer is proving to have been a very canny move indeed. It should add about R12.8bn worth of revenue to the annual coffers, bringing SPAR's total up to around R135bn this year – a solid second behind Shoprite, but way ahead of Pick n Pay at R72.4bn. The deal brings 58 corporate and 247 independent SPAR stores into the fold, together with 11 cash-and-carry's under the TopCC brand. SPAR has big plans for Switzerland, where the group has only 2.5% of the market, and where SPAR CEO Mr. O'Connor believes there is huge potential to grow footprint amid the clocks and cheese and flaxen haired maidens and whatnot. And the great thing is, if all goes well they have the option to buy the other 40%.

Comment: As the rise of Shoprite was to the noughts, so shall the rise of SPAR be to the teens. You heard it here.

[Financial Mail 26/05/16](#)

MANUFACTURERS AND SERVICE PROVIDERS

Rhodes

Rhodes side attractions

Newish comer to the industry Rhodes is a force to be reckoned with, no doubt. Ah, but how much of a force? Best we have a squizz at the jolly old interims, where we find that the newly-listed food group saw revenue jump 53.5% to R2bn for the six months through March. And profit? Oh, only 89.2% to R110m, that's all. To be fair, these numbers included sales from recent acquisitions: including six months' worth of Pacmar, Boland Pulp, Saint Pie and Deemster, General Mills for four months and Alibaba Foods for two, all of which contributed 37.4% to the growth in turnover.

Future plans include rapid growth both organically and by acquisition.

Comment: Hey, if it's working...

[Business Day 23/05/16](#)

Tiger Brands

In the forests of the night

"The company is moving into difficult times", rumbled Mr. MacDougall ominously, "and there is now a shift in Tiger's product categories and shopping patterns of consumers". This as the new CEO announced that his first order of business would be a full strategic review of the company (shouldn't there be a "360" in there somewhere? Ed). The review notwithstanding, plans are already in place for a turnaround, including capex of R1.7bn earmarked for expansion and capacity building in the business's facilities, brands, and marketing. The programme is already underway, with 50% of it already spent, and a separate investment of R502mm made in brands and marketing through March this year. All of this, you will recall, saw turnover grow 9% to R15.9bn for the interim period recently passed.

Comment: The recovery of Tiger's market share will not happen overnight, in a competitive and constrained market, but steps have been taken in the right direction.

[Moneyweb 25/05/16](#)

TRADE ENVIRONMENT

Ratings

Unrated

By this time next week we'll know the outcome of Standard & Poor's deliberations *vis-à-vis* the South African economy as a destination for canny investors. Economists have said that they believe S&P could downgrade our status to sub-investment grade either now or in December, after the National Treasury delivers its medium-term budget policy statement in October. This is a very big deal for us – a lower rating could see GDP growth to be negative to the tune of around -0.3%, bringing recession and the loss of up to 200,000 jobs. Keeping the rating stable would mean growth this year of 0.6% and as much as 1.2% next year. S&P met representatives from government, labour and business two weeks ago; it is to be hoped they liked what they heard.

Comment: There is something deeply unfair about ratings which become self-fulfilling prophecies. But this is what happens when you sail an economy so close to the political wind.

[The Times 29/05/16](#)

IN BRIEF

Nestlé

Nexit

"Brexit? Pffft! I make a contemptuous, European noise at your Brexit!" Such, or similar, were the words of Nestlé CEO Paul Bulcke on the most irritatingly-named potential political event ever. Brexit, says Bulcke, is a. unlikely to happen and b. not even on Nestlé's list of top ten threats. Most of what Nestlé sells in the UK, you see, is also produced there. Like yoggit.

[Le News 26/05/16](#)

Pioneer

Walkin' on sunshine

Jumping onto the solar boom with a characteristic mix of caution and enthusiasm this week is Pioneer, which in partnership with Energy Partners is soon to roll out a national solar programme at its facilities in Wadeville, Clayville, Bloemfontein, Klerksdorp and Worcester. The large commercial systems will have a combined output of over 2,531 kilowatt peak (kWp) and are expected to generate (if that's the word) savings of R116m over the next 25 years.

[Tatler Reporter 30/05/16](#)

THE WEEKLY GURU

"We hope to see a Europe where men of every country will think of being a European as of belonging to their native land, and...wherever they go in this wide domain...will truly feel, "Here I am at home".

Winston Churchill

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