Publication		
BUSINESS DAY		
Page	Date	AVE (ZAR)
1+13	Fri 11 June 2021	59152.03

TFG reducing credit exposure

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TFG to open 100 more Jet stores while reducing credit exposure

Heps plunge, no full-year dividend

Katharine Child
Retail Writer

TFG, owner of Foschini, Markham and Sportscene, recorded a drastic reduction in new SA accounts as it focused on reducing exposure to credit and growing cash sales in a weak local economy.

The company posted results for the year to end-March in which sales dropped 6.7%, but it saw headline earnings plunge after it sold goods on promotion and struggled in the UK market where it lost 50% of its trading days and had to write down almost R3bn in investments. The R2.7bn in impairments show the group earning less in future in the UK than it expected to.

TFG, which has clothing chains in Australia and the UK, saw 11.25% sales growth year on year in the SA market, almost entirely due to its purchase of Jet discount retailer.

In SA, where it has brands such as American Swiss and Totalsports, its credit applications fell 41% due partly to reduced marketing to attract such accounts. In a weak economy with uncertainty about the effect of Covid-19, there is caution about rising bad debt.

CEO Anthony Thunström said TFG's high level of cash sales "finally demonstrates our transition from being historically viewed as a credit retailer to being very much a cash retailer with the created lever that we can dial up or down".

Acceptance rates for account applications were down from 36.9% in 2020 to 14.8%. New accounts granted by TFG stores in SA in 2021 came to 170,946, almost 80% lower than 805,505 in the previous matching period.

THE MORE YOU SELL ON CREDIT, THE MORE BAD DEBTS YOU INCUR IN THE CURRENT ENVIRONMENT

Anthony Thunström
CEO of TFG

But it was a business decision to reduce credit risk, which comes with a risk in bad debt, Thunström said.

He told Business Day: "The more you sell on credit, the more bad debts you incur in the current environment.

"When people have lost jobs or are losing jobs, your credit risk and the provisions that you have to carry in that income statement probably outweigh the benefits of extending a lot of the credit in the first place."

Credit risk in SA was "probably set to continue for some time", he said.

The company's cash flow and cash on the balance sheet had reached record highs in part, because of a reduction in credit sales.

Many retailers have reported increases in cash sales and lower credit in the past year. These include Mr Price and credit retailer Truworths which have been cautious about allowing customers to open new accounts in the current climate.

TFG did not declare a full-year dividend as its headline earnings per share (heps), a main profit measure, dropped almost 80% to 197.9c.

The company paid a dividend of 335c in the previous financial year. The company is planning to pay dividends again in 2022.

In the UK, where it had 50% fewer trading hours, revenue fell by half. The company shut down 230 stores and restructured the business.

But the company is optimistic about the UK, with Thunström saying the business has been "right sized" and would benefit as lockdowns ended and people went back to work and parties.

Earnings per share for group were down 166.3% to a loss of 614c per share due to the UK impairments with an operational earnings loss of R719.2m.

Struggles abroad are not stopping it stepping up its fight with other discount retailers Mr Price and Pepkor-owned Pep and Ackermans.

The company plans to open 100 more Jet branches within three to five years.

Some of these Jet branches were set to close after it bought the business from Edcon, when the retailer went into business rescue.

TFG will be adding home goods and bedding back into the Jet stores and compete with Mr Price by trialling five to 10 new Jet Home stores that sell discount homeware and bedding, taking advantage of lower rentals as malls struggle to fill space.

TFG has reduced rental costs by up to 20% across the group, including overseas.

The company is launching a new one-stop online website that will sell all its brands, putting it in even more direct competition with Mr Price that has invested in its online retail strategy and increasing web traffic to a single website with the hope of increasing sales.

In addition to its brick-and-mortar peers, TFG aims to compete with online-only retailers such as Naspers' owned Superbalist.

TFG said it would use its almost 3,000 stores in SA as collection points and deliver goods directly from stores, cutting time and cost of delivery.

Many SA consumers prefer to order online and collect in-store, which is cheaper and more convenient than delivery.

The company has for a year piloted using its stores as mini-distribution centres because it already uses radio frequency tags that allow it to keep track of every item in-store. As a result it can guarantee to consumers stock in-store in real time.

Online sales make up less than 4% in SA and 12% of TFG's sales and grew over 131% in SA in the financial year.

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TFG CEO Anthony Thunström. /**Freddy Mavunda**

80%
the plunge in headline earnings per share to 197.9c

230
number of stores shut in the UK where revenue and the number of trading hours halved