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Athleisure: Sportscene is part of TFG

TFG
BUY
Target price: **R141.11**
Potential downside: **-11.7%**
* Based on analysts' consensus forecast

CLOTHING RETAIL

TFG's hot (online) future

The retail group has swatted aside its first annual loss, preferring to focus on its plans for Jet and a big online push

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● Its first annual loss is not stopping TFG from gunning for competitors Pepkor and Mr Price.

TFG swung from a R4.7bn operating profit to a R719m headline loss in the year ended March, due to drastic sales drops in the UK and lower gross margins in all three of its markets: SA, Australia and the UK.

But it plans to expand discount retailer Jet and launch Jet Home, as well as a new website combining its 21 online platforms.

In fact, CEO Anthony Thunström was so upbeat when presenting the year-end results that the loss, and a R2.7bn impairment against its UK business, appeared to be mere footnotes.

Thunström used the annual results to focus instead on future plans and launch the group's one-size-fits-all website.

It will sell everything from American Swiss jewellery to @home cutlery, sneakers from Sportscene, clothing from Foschini and yoga

mats from Totalsports.

Once you've set up the infrastructure, he says, it doesn't really matter if you're selling and delivering washing powder or a pair of jeans.

The group is also hoping to use its social media audience of 13.9-million people and its huge array of brands to drive sales from 21 sites to a single online portal.

More importantly, it will cut the prohibitive costs of online delivery, by delivering stock from stores closest to the customer, rather than relying on a few distribution centres.

It can do this because it uses radio tags to give real-time information on what stock is in store. TFG piloted the project using 500 store branches as distribution points, and has started a tech hub led by the founders of Superbalist, Claude Hanan and Luke Jedeikin.

But is the hub just hype? After all, TFG makes less than 4% of local sales online, up from 1% before Covid. And very few online stores in SA actually make money.

Clicks CEO Vikesh Ramsunder, for example, reckons online sales will become a significant income generator only in five or 10 years' time.

It's not hype, says Thunström.

The company already makes money online and expects online sales to grow between 50% and 100% each year. This means 4% in online sales becomes 8%, then 16%.

"The progression we're on at the moment is exponential. We've seen this play out in the UK," he says.

Sentio Capital's Imtiaz Suliman agrees, but is more measured about the time it takes for online sales to expand, arguing a 20% target is feasible only over "the medium term."

The crux of the online sales push is that it will shrink unprofitable space in malls, while increasing stock turnover — key to lifting profit.

TFG, which owns @home, is also launching Jet Home and reintroducing bedding in Jet stores, after buying the brand from Edcon last year. This will put it in direct competition with Mr Price's Sheet Street brand.

Retail analyst Chris Gilmour says plans to expand the number of Jet stores to 100, and online investment, are leading to a showdown: "TFG has really embraced online to the most incredible extent, only Mr Price is arguably ahead of them. This is definitely the way to go and I see a time in the not-too-distant future when the main showdown in the space will be between MRP and TFG."

But taking on Mr Price means fixing Jet's fashion.

TFG is well placed to do so. Its quick-response factories make clothes in 52 days, which can help it to respond faster to fashion trends than waiting for the 180 days it takes for stock to arrive from China.

The big difference between TFG and Mr Price is that the latter doesn't have the weight of a struggling UK business around its neck.

While the group's Australian sales slipped just 7.1% in 2020, in the UK, which brings in 12% of group revenue, sales slumped 49% due to that country's extensive lockdowns.

High-end brands like Hobbs and Whistles faced muted demand for their predominantly party and formal office wear. It meant TFG had to shut 230 of its 971 UK stores, and the company believes it will break even only in 2022.

Suliman is not convinced that its formal UK brands will bounce back. "It's going to be patchy depending on lockdowns as well as fighting the trend of casualisation of workwear as the economy opens up."

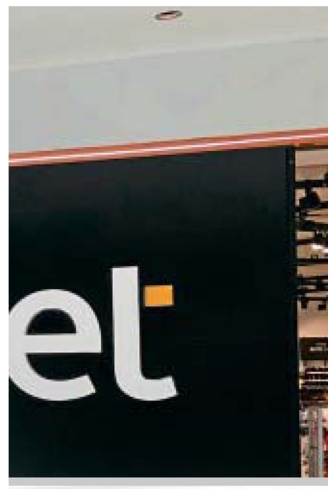
He says TFG's UK acquisition "would not have taken place if it had to be evaluated on a fresh page. The reason I say that is it goes against the TFG model of playing in more fast fashion and less competitive spaces such as

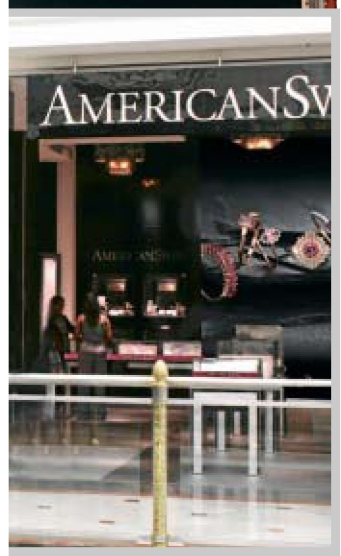
Anthony Thunström: Online is not just hype
Freddy Mavunda

Mr Price
BUY
Target price: **R229.67**
Potential upside: **2.6%**
* Based on analysts' consensus forecast

Truworths
HOLD
Target price: **R54**
Potential downside: **-7.8%**
* Based on analysts' consensus forecast

Pepkor
BUY
Target price: **R19.68**
Potential downside: **-2.6%**
* Based on analysts' consensus forecast





One-stop shop: TFG's website will sell

athleisure and menswear. The UK is heavy in formal ladieswear, a very contested space."

But Gilmour, now based in Scotland, sees the UK problems as solely lockdown-related.

"I have rarely seen this amount of cash sloshing around in UK consumers' pockets. So, while TFG London looks clapped out right now, I foresee a rapid recovery."

Despite TFG's losses, the group generated more cash from operations in 2020 (R9.4bn) than it did the year before (R8.3bn). It has also slashed net debt to R1.3bn from R8.4bn.

When asked why the company did not pay a dividend, Thunström says not a week goes by that it is not approached by companies in the UK and Australia or SA retail market about an acquisition, suggesting that more Jet-like deals could be in the offing.

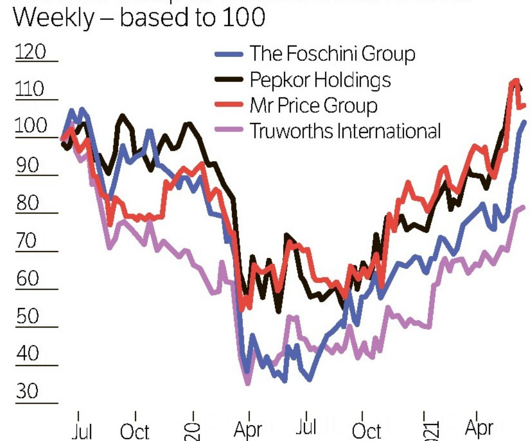
Still, he says the group has "very strict" criteria about any further acquisitions, and plans to resume dividends in 2022.

While all SA's apparel retailers have had a cracker of a year so far, TFG's shares over one year are ahead by a country mile: a 152% increase, against Truworths' 65%, Mr Price's 57% and Pepkor's 53%.

However, all four shares appear to have run ahead of investors' price targets, suggesting that, on the market at least, a rather more drab year awaits. **x**

RETAIL ROMP

TFG vs Mr Price Group vs Pepkor Holdings vs Foschini Group vs Truworths International
Weekly – based to 100



Source: Infront