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# Pick n Pay Stores Ltd



# Recommendation

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- Forward P/E multiple of 22 times → Fully valued on an absolute and relative basis
- Above average growth expected in medium term
  - Group's transformation implemented
- Benefits expected from strategic initiatives through:
  - Improved shopping experience
  - Better operating efficiencies through its supply chain
  - Better positioned to extract profitable growth from new space growth
- Meaningful cost reductions and improved operating efficiencies
  - Translate in earnings growth ahead of the sector
- Market conditions remain challenging
- Tailwinds reflected in valuation
- Retail sector rerated significantly since beginning of year
  - Fully valued



# Financial Highlights

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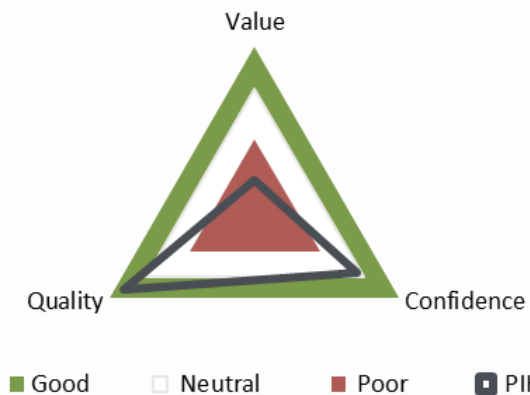
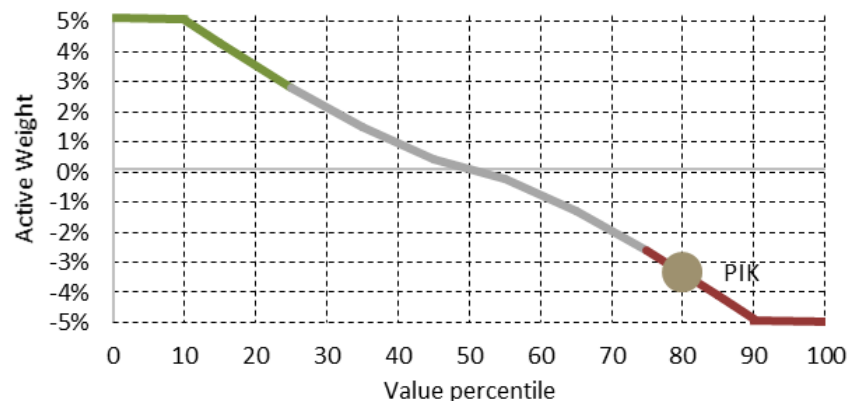
- Turnover ↑ 5.3% (LFL: +2.2%) to R81.6bn
- Lower internal selling price inflation: 2.2% (FY17: 6.1%)
- 124 net new stores (153 additions and 29 closures)
  - ↑ Group trading space by 3.3%
- New stores contributed 3.1% to turnover growth
- Volumes ↓ 1.8% in H1 and ↑ 1.5% in H2
- VSP completed → 10% reduction in headcount
- Cutting costs with trading expenses ↑6.7% (LFL: +1.6%)
  - Excluding once-off costs relating to VSP → Trading expense rose 4.9%
- Employee costs ↑ 4.3% (LFL: down 2.3%)
  - Excluding VSP → employee costs fell 0.4%
- Adjusted trading margin ↑ 30bps to 2.5%
- Capex amounted to R1.6bn
- Diluted HEPS ↑ 7.7% to 271.6cps



# Portfolio Guidance

- Current Capped SWIX weighting is 0.47%
- Recommend exposure of 0%

Value profile



# Place a trade

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To place a trade please speak to your financial adviser or contact our dealing desk.



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