

Woolworths delivers double-digit profit growth in SA

Woolworths Holdings Limited (WHL) delivered a resilient result, notwithstanding the challenging macro environment and a high prior-year base.



Woolworths Holdings Limited (WHL) Group CEO, Roy Bagattini. Source: www.youtube.com

Commenting on the performance and future of the business, WHL Group CEO, Roy Bagattini said: “Our results have again highlighted the benefit of our diversified group, the strength of our brands, and the passion and commitment of our dedicated teams.

Bagattini continues, saying “I firmly believe that we have proven ourselves to be a resilient organisation, focused on formulating clear strategies and executing against them, to deliver more for our customers, and more to our shareholders.”

Performance for the period was impacted by an increasingly challenging macro-economic backdrop, given the sustained effect of interest rate increases and higher living costs. This negatively impacted footfall and discretionary spend in both geographies.

In South Africa, business operations were further disrupted by almost-daily loadshedding, congestion at the ports, and the impact of Avian flu on the availability of key food product lines.

Woolworths

The economic environment in South Africa remains challenging, exacerbated by the country's energy and logistics crises, which continue to impact both business and consumer confidence. Notwithstanding the challenging context, Woolworths South Africa delivered a very credible result, recording double-digit profit growth.

Woolworths Food

Woolworths Food delivered solid growth, underpinned by the highest like-for-like sales growth in the sector, and re-enforcing its strength and resilience. Turnover and concession sales grew by 8.4% and by 7.2% on a comparable store basis, notwithstanding the impact of increased levels of loadshedding and the Avian flu.

Underlying product inflation for the period averaged 9.1%, being below headline food inflation as Woolworths continue to invest in price. Sales grew by 8.6% in the last six weeks of the period, delivering positive volume growth as product inflation eased to 7.9%.

Space grew by 3.3% over the prior period, while online sales increased by 46.6%, contributing 5.1% of South African sales, driven primarily by increased coverage of our on-demand Woolies Dash offering.



Woolworths recalls Peanut Butter Dairy Ice Cream

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Gross profit margin increased by 80bps to 24.6%, through more targeted and effective promotions, as well as value chain efficiencies. This more than offset the impact of the high growth of the online channel, and the ongoing investment in price. Adjusted operating profit grew by 13.0% to R1,595m, returning an operating profit margin of 7.0% for the current period, compared to 6.7% in the prior period. Adjusting for the impact of loadshedding, operating profit grew by 13.2%, returning an operating margin of 7.3%.

Woolworths Fashion, Beauty and Home

Fashion Beauty and Home continues to make steady progress against its strategic priorities. Sales for the period were however impacted by poor availability, due in part to the late arrival of various summer ranges arising from congestion at the ports.

Turnover and concession sales grew by 2.2%, with comparable store sales increasing by 1.5%. Sales growth in the last six weeks of the period improved to 3.8%, supported by the successful execution of Black Friday promotions and festive season trade.

The teams remain focused on full-price sales, which positively impacted price movement of 11.4%. Net trading space increased by 0.3% relative to the prior period, while online sales grew by 26.9% and contributed 5.4% of South African sales.

Notwithstanding negative mix effects and inflationary supply chain costs, gross profit margin was maintained at 48.0%, given the continued focus and further improvement in full-price sales and markdown metrics.

Adjusted operating profit decreased by 5.3% to R927m, resulting in an operating margin of 12.2% for the current period, compared to 13.1% in the prior period. Adjusting for the impact of loadshedding, operating profit declined by 4.3%, with an operating margin of 12.6%.

Woolworths Financial Services

The WFS book reflects a year-on-year increase of 4.9% to the end of December 2023, driven by growth in new accounts and credit card advances. The annualised impairment rate for the six months ended 31 December 2023 was 6.3%, compared to 5.5% in the prior period, and remains the healthiest in the sector.

Country Road Group

Trading conditions in Australia and New Zealand have deteriorated further, with consumer sentiment in Australia at near-record lows, and household savings the weakest since the Global Financial Crisis. In addition, the retail industry has been disproportionately impacted by the shift in spending away from goods to services.

Country Road Group sales for the current period declined by 5.0% and by 9.5% in comparable stores, off a high prior period base in which sales grew by 25.5% following the strong recovery from the Covid-impacted lockdowns. Sales growth in the last six weeks of the period was positive, at 1.3%.

The Country Road brand continues to deliver a market-leading performance across key categories. Overall trading space increased by 6.6% during the period, supported by the ongoing expansion of our wholesale and concession channels. The contribution from online sales increased marginally to 26.8% of total sales.

Higher promotional activity to reduce inventory levels and the impact of a weaker Australian Dollar on input costs resulted in a 140bps decrease in the gross profit margin to 62.1%. Expenses were well controlled, increasing by 6.4%, notwithstanding the increased trading space.

Given the impact of negative operational leverage arising from the softer top-line performance, adjusted operating profit decreased by 46.1% to A\$50.2 million, returning an operating profit margin of 8.5%, compared to 15.0% in the prior period.

Outlook

The outlook for the rest of the financial year is expected to remain challenging. Whilst inflation is expected to ease gradually, interest rates across both geographies are likely to remain elevated, placing continued pressure on consumer disposable income.

In South Africa, the ongoing energy crisis, port and infrastructure challenges are expected to further constrain economic activity. In addition, the upcoming elections and ongoing global geopolitical tensions increase uncertainty.

Notwithstanding this challenging macro backdrop, Woolworths remain confident in its ability to deliver against our

strategies, and are well placed to benefit from any cyclical consumer recovery.

“We have a robust balance sheet, are highly cash generative, and are leveraging our strengthened foundation to optimise our existing businesses and invest in new sources of future growth.” concludes Bagattini.

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