

EQUITY REPORT

11 SEPTEMBER 2020

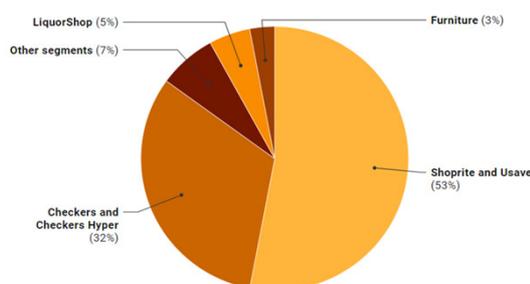
SHARE INFORMATION

Share Code	SHP
Industry	Food & Drug Retailing
Sector	Consumer Staples
Market Capital (ZAR m)	77 044
Current Price (ZAR)	129.00
Target Price	160.00
Price - 52 Week High:	145.50
Price - 52 Week Low:	95.01
Dividend Yield	2.97%
Beta 5 Year (JSE All Share)	-0.10

SHARE PRICE PERFORMANCE**



Revenue by segment FY 2020



VALUATION RATIOS **

Period	P/E	P/SALES	EV/EBITDA
Last 12 Months	23.8x	0.5x	8.4x
Current Year Est	17.7x	0.5x	7.2x
Next Year Exp	15.9x	0.4x	6.7x

Data provided by Thomson Reuters

CONTACT US

Reception	+27 (11) 202 2712
Dealing Desk	+27 (11) 202 2716
Website	www.psg.co.za/oldoak
Blog	www.oldoak.co.za

SHOPRITE HOLDINGS LTD (JSE:SHP)

RECOMMENDATION: BUY

Shoprite Holdings Limited is an investment holding company. The company is a food retailer and wholesaler. It operates through four segments: Supermarkets RSA, Supermarkets Non-RSA, Furniture and Other operating segments. The Supermarkets RSA segment includes retail operations under the Shoprite, Checkers, Checkers Hyper and Usave brands in South Africa, retailing products, such as food, clothing, general merchandise, cosmetics and liquor. The Supermarkets Non-RSA segment includes its retail operations under the Shoprite, Checkers, Checkers Hyper, Usave and certain Hungry Lion brands outside of South Africa. The Furniture segment includes its retail operations under the OK Furniture, OK Power Express and House & Home brands retailing products, such as furniture, household appliances and home entertainment systems. Other operating segments include trading in franchise operations and retail and wholesale of pharmaceutical products.

FUNDAMENTAL/TECHNICAL OVERVIEW

Shoprite recently released its FY2020 results for the period ended 28 June 2020. The company reported a 6.4% increase in the sale of merchandise to R156.9 billion. Like-for-like sales grew by 4.4%. Trading profit fell by 2.7% to R8.2 billion, but when excluding the impact of hyperinflation, trading profit was up by 10.4%. The group declared dividends per share of 383 cents for the year, up by 20.1%.

In terms of the group's continuing operations, it reported an improvement in its net cash position by R6.4 billion to R10.0 billion (FY2019: R3.6 billion). FY2020 saw the net borrowings decline by R6.1 billion to R2.0 billion (FY2019: R8.1 billion).

Supermarkets RSA, the group's core business, makes up 78% of Shoprite's sales. This segment reported 8.7% sales growth for the year (inclusive of liquor) which was underpinned by strong second-half growth of 7.5%. This growth was possible, notwithstanding the high FY2019 base, during which fourth-quarter sales grew by 9.4%. The company reported that customer visits declined by 7.4% for the year due to changed behaviour during the lockdown. The change in customer behaviour also led to the average basket spend for FY2020 increasing by 18.4%. South African supermarket business reported 2.3% volume growth, coupled with 16 months of consecutive market share gains up to and including June 2020.

When considering the Non-RSA Supermarkets performances, the group reported a more challenging trading environment resulting from COVID-19 lockdown regulations. This segment reported an overall decline in sales of 1.4% for the year, but in constant currency, sales increased by 6.6%. Zambia reported an increase in constant currency sales of 15.7%, whereas Angola sales declined by 29.1% as the devaluation of the kwanza continued. In response to the sale declines in this division, the group has implemented short term actions, including the reduction of cost of operations and capital allocation limited to existing operations and committed projects. The group has also announced that the process of potentially selling its majority or entire stake in the Nigeria business is underway. Shoprite is also in the process of disinvesting in the Kenya business and considering closing or disposing of the remaining two stores.

Shoprite's furniture segment's sales declined by 11.9% to R5.47 billion (FY2019: R6.21 billion). Second-half sales fell by 23.1%. Credit participation for this segment increased to 13.3% (FY2019: 12.7%). Furniture represents 3.5% of the group's sales. Shoprite's two furniture brands, OK Furniture and House & Home, were significantly impacted by lockdown regulations which required the closure of its South African business for 52 days and its Non-RSA business for 31 days, on average per country over the same period. Over the twelve months, the division closed 26 stores in South Africa (22 OK Furniture and 4 House & Home) and one OK Furniture store outside South Africa.

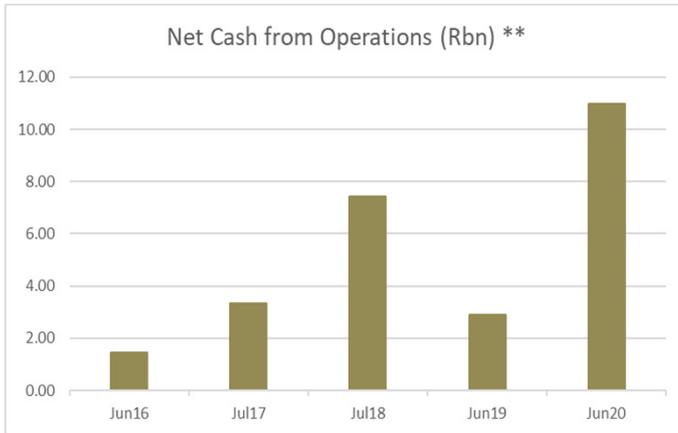
Strategically, the group launched the first digital shopping application in its industry; Checkers Sixty60. The group initially tested the application with 8 stores during November 2019 and has increased this service offering to 87 stores by 28 June 2020 in response to COVID-19. With approximately 620 000 application downloads, Checkers Sixty60 is South Africa's number two shopping application. Shoprite is trading at a dividend yield of 2.97%, price to book ratio of 3.01 and a forward PE of 17.92.

Research contributors

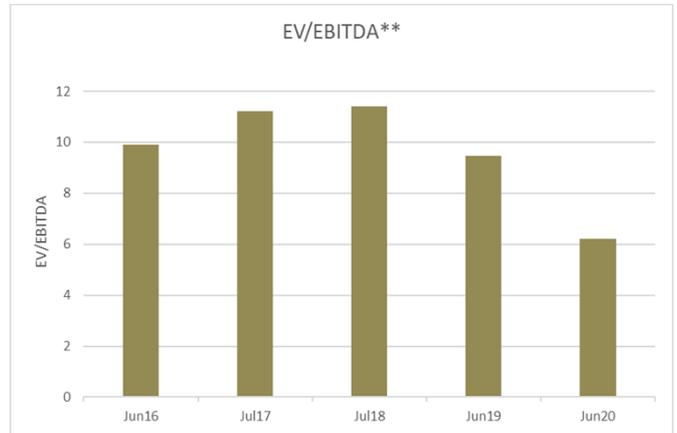
Pieter-Jan van Niekerk, Charissa Potgieter, Schalk Louw

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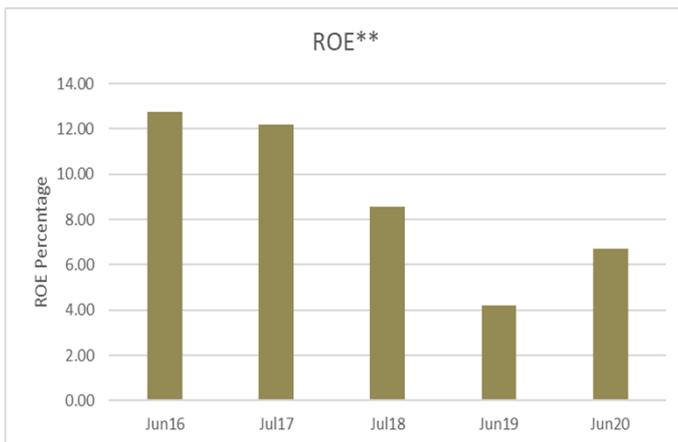
11 SEPTEMBER 2020



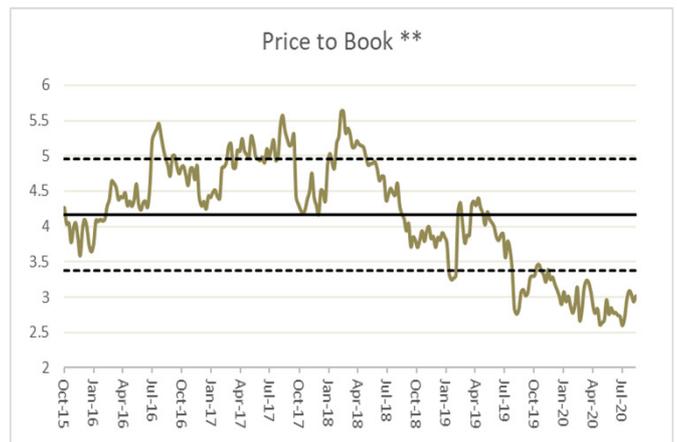
Net cash from operations increased significantly for FY2020 to R10.99 billion (FY2019: R2.9 billion).



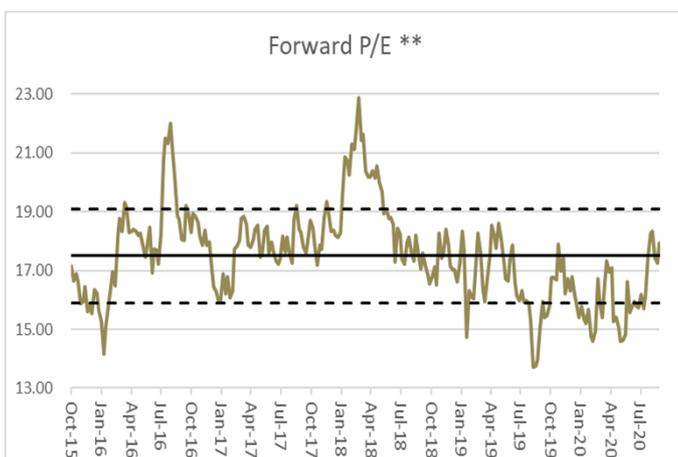
Shoprite's enterprise value to EBITDA ratio has decreased to 6.21 for FY2020 (FY2019: 9.47).



The group's ROE has increased to 6.72% (FY2019: 4.22%).



The company is trading at a price to book ratio of 3.01, more than one standard deviation below the mean of 4.17.

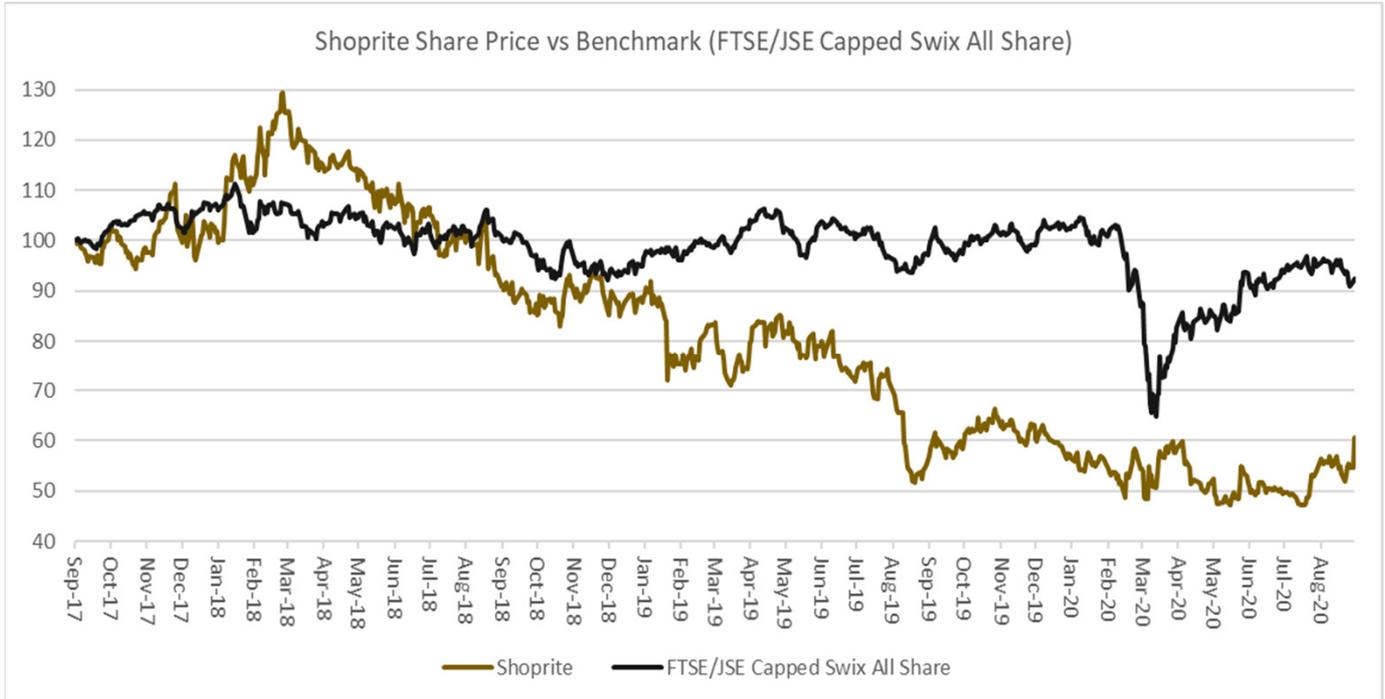


SHP's forward P/E is trading at 17.92, slightly above its long-term average of 17.49.



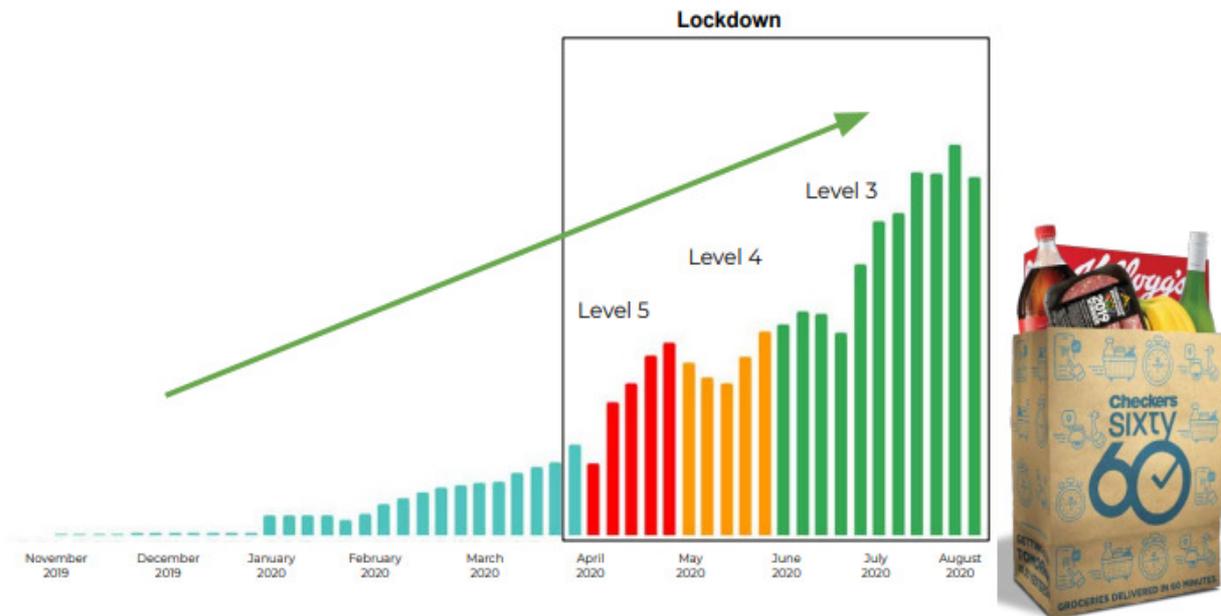
Shoprite's price to sales is trading more than one standard deviation below its long term mean of 0.69. The company's price to sales ratio is trading at 0.45.

Data provided by Thomson Reuters



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Checkers Sixty60 weekly orders

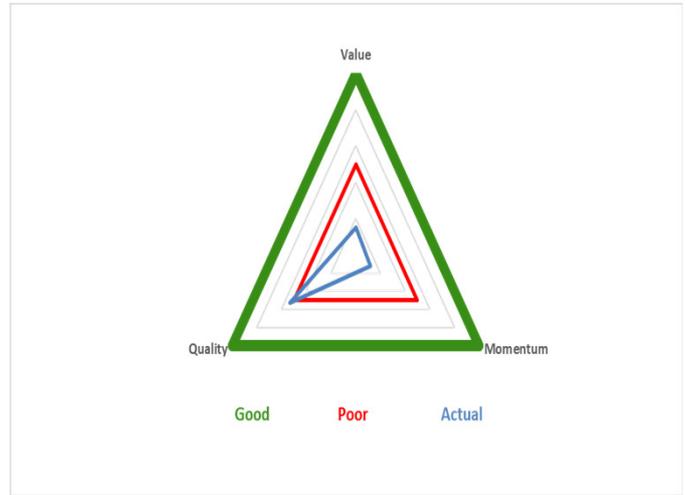
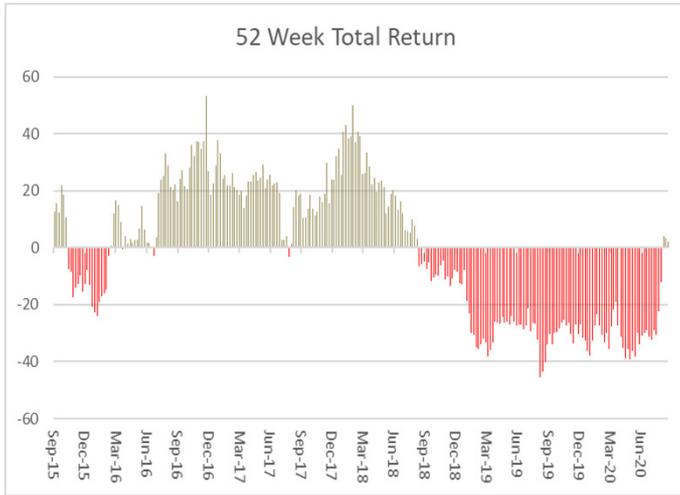


Source: Company earnings report

The launch of the company's Sixty60 application has acted as a tailwind for FY2020. Enabling consumers to shop online and delivering these goods to consumers proved a great addition to Shoprite's product and service offering during the COVID-19 outbreak and the subsequent lockdowns.

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Shoprite's 52-week high/low is R145.50/R95.01 respectively, currently trading at R143.50 . The company's year to date performance is +13.3%. The share is now trading well above the 50-day moving average. Should the post results rally continue, a test of the 38.2% Fib level of R165.58 could be possible. The 23.6% Fib level could provide some short term support. Both the stochastic oscillator and relative strength index are trading at overbought levels.



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