

Retail stand-outs ripe for the picking

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Bitter fruit abounds but these five companies look tasty, writes Trevor Hoey

THE economy is slowing and consumer confidence is waning but that doesn't mean everything in the retail sector is bad news.

There are still companies whose share prices, taking into account financial fundamentals, industry exposure and market position, appear to have reached a point where they may have been oversold.

We take a look at five such companies, three of which have outperformed the broader index with share-price falls of less than 50 per cent. JB Hi-Fi, OrotonGroup and The Reject Shop are the outperformers, with average falls of about 35 per cent.

JB HI-FI

Support for JB Hi-Fi can be attributed to its consistent performance since listing on the ASX in 2003. The company's products include items that sell well regardless of economic conditions.

That isn't to say it won't feel the pinch but there is more scope for a change of pace when a company has consistently achieved annual net profit growth of more than 25 per cent. Profits have increased five-fold over the past five years.

JB Hi-Fi's store-expansion strategy has contributed to its growth but the quality of the business model is demonstrated by the strong comparative year-to-year same-store sales growth.

Most of JB Hi-Fi's electrical equipment such as computers, mobile phones, televisions and DVDs, have a high turnover rate due to regular superseding of products.

OROTONGROUP

The retailer of quality fashion clothing, accessories and jewellery has progressed through a period of reconstruction and the benefits of those initiatives are evident in the company's 2007-08 result. Profit growth of 70 per cent was driven by a strong performance from the company's Oroton retail stores and its own branded merchandise. Polo Ralph Lauren stores and products also accounted for a substantial increase in same-store sales growth.

OrotonGroup expects to continue its strong performance with the opening of eight new Oroton stores and three Polo stores in 2008-09. Managing director Sally Macdonald views Oroton's business model as well-positioned for a variety of markets.

The more upmarket fashion house tends to attract customers who are financially well off, have stable incomes and a desire to wear high-profile brand names.

THE REJECT SHOP

Although its share price slid sharply in January from about \$13 to \$9, The Reject Shop has since held firm, trading for the most part in the vicinity of \$10, unlike most of its peers.

With net profit growth of 35.6 per cent in 2007-08 and expectations of a profit in excess of \$18 million in 2008-09, it is not surprising that The Reject Shop has been well supported.

Management's upbeat outlook in 2008-09 is based on its active store-expansion plans and the company's strategic positioning as a low-cost retailer.

The Reject Shop has opened 10 stores since June as part of its projected roll-out of 20 stores in 2008-09. While a decline in the Australian dollar may crimp margins, the company's competitive position as a discount retailer leaves some scope to compensate by adjusting prices.

RCG GROUP

RCG Group is an off-the-radar stock with a market capitalisation of about \$50 million. While the company may be unknown to many, The Athlete's Foot chain of stores is well known to consumers for its approach to professionally fitting shoes.

The stores have technology that analyses the customers' feet and their walking style, enabling staff to provide shoes that have the best dimensions and support to maximise the level of comfort.

In 2008-09 management expects to expand its number of stores from 132 to 140, assisting the company in achieving double-digit profit growth. RCG is debt free and has cash reserves of about \$20 million to fund its store roll-out program.

SUPER CHEAP AUTO

Super Cheap Auto's managing director Peter Birtles believes the company is well-placed to continue to grow despite a downturn in consumer spending. Super Cheap has 251 automotive stores and 53 of the fast-expanding BCF (boating, camping and fishing) outlets.

Birtles says the average transaction value at Super Cheap Auto stores is about \$28. This does not reflect a large percentage of big-ticket item sales, a factor that is significant when consumer spending tightens. He also says car-care and maintenance products often sell well in tough times.

More than half of Super Cheap's products are sourced locally, resulting in the company being relatively unexposed to currency movements. Management believes the fall in the price of raw materials along with reduced freight costs will offset any potential currency issues.

This story was found at: <http://www.smh.com.au/articles/2008/11/08/1225561192258.html>