Massmart Final Results to Dec 2020

Watching the recent full year results presentation by Massmart, one was left with the impression that the dream of being the pre-eminent African retailer that was articulated in 2010 when WalMart bought control of the company has now all but evaporated. Massmart appears to be in survival mode, selling off assets and streamlining the business. The Covid pandemic hasn’t helped but Massmart was in trouble long before it arrived.

Until current CEO Michell Slape arrived, Massmart’s store base was growing rapidly and was unfocused. Slape has brought back focus to the business but in the process he is downsizing it considerably. You cannot save your way to greatness. And the rest of Africa business, once touted as Massmart’s great new growth vector, was hardly even mentioned during the presentation. It transpires that the rest of Africa business is “under review”. That is usually corporate-speak for “it’s going to be sold off or closed down”. So with a streamlined local operation, no more rest of Africa operations and R5.5 billion of debt (much of which is owned by WalMart), it is difficult to see where sustained growth, apart from a bounce-back this year, is coming from.

Management estimates that Covid-related restrictions last year resulted in lost sales of R6.1 billion, with R3.4 billion of that figure relating to lost liquor sales as a consequence of the various liquor bans that were in place last year. Normal liquor trading was only available for 33% of the year. The estimated impact on operating profit was R1 billion.

Total group sales at R86.5 billion were 7.7% lower than in 2019 and on a comparable basis, which takes into account any differences in retail floor space, sales were down by 7.5%. Food sales fell by 3.1% and accounted for 42% of total sales. Liquor sales dropped by 22.4%, accounting for 15% of total, while durable goods sales fell by 7% and constituted 43% of total sales. 90.8% of sales were generated in South Africa, with 9.2% in the rest of Africa. The diluted headline loss per share reduced from -529c in 2019 to -426.8c in 2020.

Segmentally, there were only two bright spots in these results-Builders Warehouse and Jumbo/Shield wholesalers. Builders’ profits rose by 22%, while those at Jumbo/Shield were up by 329%. Builders benefited from the current upsurge in demand from the so-called “homebody economy”, with many people working from home and spending money on making their homes more comfortable and efficient. The other businesses saw profit drops ranging from 17% at Makro and Cambridge/Rhino to a 36% drop at Game.

Slape announced that both Cambridge/Rhino and Massfresh will be disposed of, as standalone food retail is not core to Massmart’s business. If these sales go ahead and the rest of Africa stores are also disposed of, Massmart will be left with 22 Makro stores, 69 cash and carry stores, 120 Builders stores and 149 Game outlets.

Michell Slape is a career operator with a good track record in his 26 years at WalMart. His current stint at Massmart is hardly the most glamorous or rewarding position he could have hoped for after his time in both India and Mexico with WalMart. However, there is a job to be done and he appears to be executing it well. He reminds me of Winston Wolf in Quentin Tarantino’s Pulp Fiction. Wolf, played by Harvey Keitel, was a fast-talking, fast-acting and highly functional individual individual who was brought in to clean up the mess left behind by Vincent Vega (John Travolta) and Jules Winnfield (Samuel L. Jackson). Slape is cleaning up the mess that he inherited as CEO of Massmart and doing it faster than most people thought possible. But the price for this is a much slimmed-down entity that lacks the critical mass required for growth.

Such a tiny enterprise without growth potential is meaningless in the world of WalMart, the world’s largest retailer. It would be very surprising, therefore, if it decided to retain Massmart after the clean- up has been finished and WalMart’s debt to Massmart has been repaid.

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