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Briscoe sales surge in summer 2010

Briscoes (BGR) managing director Rod Duke told shareholders at the company's AGM that the discount retailer had come out of the recession in great shape with a FY09 result that was "nothing short of outstanding" and demonstrated the strength of BGR's retail brands.

Duke also highlighted BGR's strong start to FY10 with 1Q10 sales and earnings "well ahead" of last year.

BGR was trading at around \$1.30, up 2c (1.56%) following the announcement.

"A couple of weeks ago we released our 1st quarter result. Group sales for the quarter ended 2 May 2010 were \$96.8m, up 7.39% on the first quarter last year," says Duke

Forsyth Barr analyst Guy Hallwright says BGR looks right on track to deliver a full-year profit which is right back to pre-GFC peak levels. "BGR's 1Q sales trends show a continuation of the solid growth recorded over the last year, a strong performance in the face of fairly flat overall retail sales."

"While the gross profit generated for the first quarter is ahead of last year, the gross margin percentage is slightly down, reflecting the intensely competitive retail environment," says Duke. "However, Group sales growth has been sufficiently strong such that profit is tracking well ahead of last year."

Homeware sales were up 7.89% to \$63.3m for 1Q10. On a same store basis, Homeware sales were up 7.58%. Rebel Sport increased sales 6.45% to \$33.5m with same store sales at the same level.

Duke told shareholders he was "delighted with this result. To have our two large retail brands performing way ahead of the first quarter last year is most heartening."

Market share rose across all regions for Briscoes Homewares in the January 2010 quarter, as measured

by Datamine from data supplied by Westpac, he said.

"We made a number of significant, well-documented changes to Briscoe Group's operating model during last year, and these are definitely impacting on our trading performance."

Duke says BGR is seeing significant uplift in demand for well-known and trusted brands as shoppers opt for safety and familiarity.

"Our research tells us that retailers that continue to focus on their core business, and execute well, are outperforming those, whose response to softer sales, has been to move into new, and less familiar territory," says Duke.

"Briscoe Group's retail brands have proven to be very much right for the times, and their increasing popularity with shoppers, is testament to this. For us, it has always been about price-plus and that core philosophy is working."

Duke sees a tough year ahead for retailers, as shoppers buy within their means. "For Briscoe Group this implies that growth will only come from market share and that means doing things smarter than our competitors, sticking to what we know, works."

Hallwright says Forbar is not changing its forecasts and anticipates a further year of solid profit growth in FY11, "albeit moderating significantly from last year's near-doubling as profits recovered from the recession-affected FY09".

"Our \$1.86 BGR valuation assumes EBIT margins stabilise at around 9% in Homeware and 6% in Rebel, neither of which appears very demanding," says Hallwright. "Although BGR's share price has more than doubled since last year's March low our recommendation remains ACCUMULATE as we believe the longer-term value on offer is still attractive."