

EQUITY INSIGHTS

Pick n Pay Stores Limited: Stronger Value Proposition Supports Growth

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DELIVERING ON THE STRATEGY

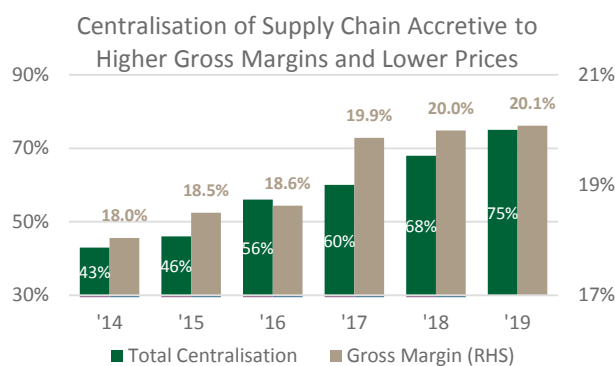
Pick n Pay (PnP) continued to deliver on their strategy during the year ended 28th February 2019, where they achieved a market leading 5.3% increase in trading density, 7.1% revenue growth, operating efficiency gains and 18.0% earnings growth. Amidst a weak economy and low food inflation, this was a strong result. Returns on assets and equity continued to rise, as revenue out-grew assets and profitability continued to improve.

	Pick N Pay Stores Limited
Market Cap	R 35bn
Current Share Price	R 71.20
52w High-Low Range	R 62.28 - R 79.53
Forward PCF	19.2x
Forward DY	3.5%
Financial Year End	28 February 2019

Sources: FactSet, May 2019

SUPPLY CHAIN DRIVING IMPROVED VALUE PROPOSITION

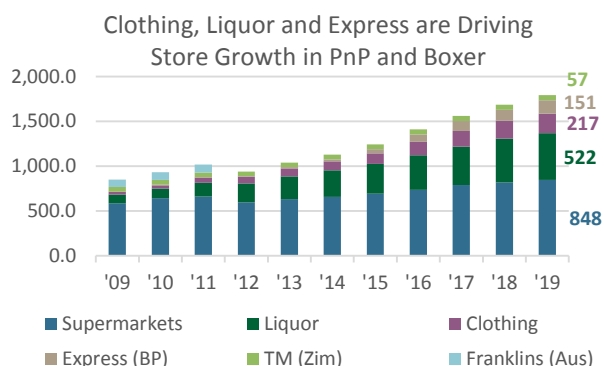
- 75% of PnP's supply chain (purchasing and distribution) is now centralised. With a revenue growth focus, gross margin gains achieved during the year from this process were invested back into price.
- Further gains are expected at Boxer which is 40% centralised. PnP have recently hired Photy Tzellios (Shoprite) to head up their supply chain.
- PnP's better buy program is working with suppliers to reduce prices which are passed on to customers, driving volume growth.
- An improved pricing point relative to peers is a key part of a stronger value proposition. This resulted in price deflation of -0.3% during FY19.



Sources: Company Filings, May 2019

PRIVATE LABEL CONTINUES GAINING GROUND ON BRANDS

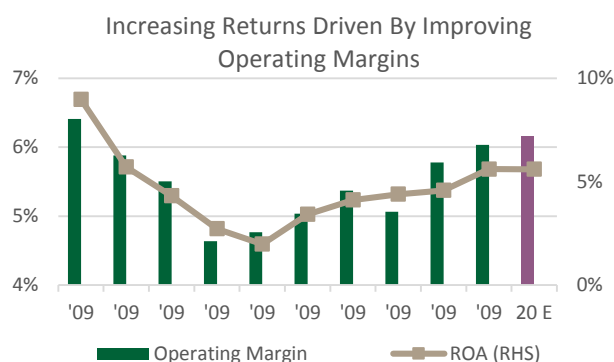
- PnP regard innovation and private label as key drivers of quality and value for customers with longer term margin expansion prospects.
- Globally, there is a structural trend toward private label, with retailers gaining ground against branded goods.
- In FY19, PnP redesigned 700 products and introduced 500 new products. Private label reached 21% participation, with a goal of 30%.
- PnP's baked beans brand is out-selling Koo at Boxer Superstores.



Sources: Company Filings, May 2019

PNP'S FOOD RETAIL PLATFORM

- The average household visits food retailers more than once a week, providing food retailers with a platform to offer greater convenience to customers. PnP has done so through expanding its retail focus over the years into liquor, clothing, and to a lesser extent, health & beauty, general merchandise and pharmacy. Value added services include free cash withdrawals, money transfers and TymeDigital zero-fee banking.
- There are now 522 liquor stores across PnP and Boxer, up 80% over 5 years, and accounting for 29% of the group's store footprint. Revenue contribution is not disclosed and is proportionately smaller. Structural tailwinds are benefiting PnP here; consolidation of the liquor retail industry with market share gained from independents on scale and pricing, leveraging the convenience of being co-located with its supermarkets, and formalisation of the informal liquor retail industry.
- Clothing stores grew 9% to 217 in FY2019, with a value proposition of high quality basics at good value. Apparel margins are likely accretive.
- Tapping directly into the structural convenience trend, PnP has grown their Express store partnership with BP to 151 stores, up 27% in FY19.



Sources: Company Filings, May 2019

CONCLUSION

PnP is now a core holding. The improved value proposition is driving growth in both Boxer and PnP supermarkets, further enhanced by liquor, clothing and Express. The business is in a stronger position than it has been in years, and management is expected to continue delivering operating margin improvements over time.

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