

Shoprite Holdings Ltd

Consumer staples

Company Update Report


Hold

South Africa's largest retailer, Shoprite, remains a market leader with ongoing growth and expansion.

Analyst recommendation

Table 1: Analyst recommendation

Counter	Share price	Intrinsic value	Difference
Shoprite Holdings Ltd	R283	R278	1.8% Downside

31 January 2025

Executive summary



1. This is the pre-eminent food retailer in South Africa, with the best margins and the most effective management, but its sheer size limits the potential for above industry growth (even market share gains will become limited) and its valuation is full.
2. Key points in the investment thesis are:
 - a. Group revenue growth of 9.5%, however, this was mainly driven by acquisitions as like-for-like revenue growth was 6.3%. Internal selling price inflation of 1.9% implies an increase in like-for-like volume growth.
 - b. The impact of loadshedding is improving as the company adapts, as well as a reduction in loadshedding hours. FY24 had approximately R1bn in loadshedding costs and this is expected to decrease substantially in FY25 if the utility continues its current path.
 - c. Supermarkets RSA opened a net 248 stores over the past 12 months to a total of 2 485 stores.
 - d. Shoprite's internal price inflation was 1.9% for H1 FY25 compared to H1 FY24 7.7%. Shoprite still maintains strong margins and creates space for volume growth on top of expanding their store footprint.
3. Have an intrinsic value of R278 per share (downside of 1.8%) and recommend a hold position.
 - a. In our base case we have an exit multiple of 11.6 times in line with the 10-year average.
 - b. Looking at EBIT growing at CAGR 7.4% between FY25 to FY27 driven by price increases, store growth and lower food inflation.
 - c. Small downside on valuation due to stretched multiples, which remain higher amongst industry peers and history.
4. What would make us change our minds?
 - a. Price rerating to more normalised levels.
 - b. Inflation returning to normal allowing management to execute on price control thereby allowing a more balanced price-mix.
 - c. Improvement in macro environment in South Africa, such that employment growth returns



Table 2: Qualitative summary

Factor review	Rating	Description
Valuation		
Growth		PSG Wealth EBIT expected Cagr 7.4% between FY25 to FY27.
Valuation		Value the company on a EV/EBIT multiple valuation with a 1.8% downside.
Dividend yield		Dividend yield of 2.5%, above peers, but below the market.
Issuance		Group repurchased shares to the value of R997 million at an average share price of R289.29
Catalyst	<ul style="list-style-type: none">Continued market share appreciation.Inflation normalisation.Successful store expansion into new areas to create business synergies.	
Quality		
Quality of earnings		Consistent and reliable margins with minimal adjustments. Gross margins are consistent at around 24% with Net margins at 3%.
Moat		Established relationships with suppliers, efficient distribution networks and established brick and mortar stores creates barriers to entry for any new competitors.
Management and governance		Whilst management has been reliable and delivered excellent business performance in the last three years Christo Wiese's share structure gives him unique voting powers of up to 45% which creates a risk to ordinary shareholders.
Balance sheet		Neutral balance sheet with high debt levels, however majority of the debt comes from 2020 IFRS 16 amendment which resulted in high financial lease obligation adjustments. Interest coverage ratio sits at 2.72x (inclusive of financial leases).
Macro and quantitative sensitivities		
Risks	Upside risk <ul style="list-style-type: none">Continued market share growth.Successful role out of pet, clothing, and outdoor apparel stores to support growth.	
	Downside risk: <ul style="list-style-type: none">Persistent high inflation leading to margin deterioration.Loadshedding costs impact on the bottom line numbers.Further SA growth deterioration.	
Regulation		No major concerns
ESG		Neutral rating on FactSet with a core 59/100. Neutral rating on the business model and low rating on leadership and governance.
Momentum price		Price momentum is negative, 24D moving average is below the 55D moving average.



Momentum Earnings		Earnings momentum is positive, with a 1.7% earnings revision in the last three months for the next financial year.
Piotroski score		Piotroski score is neutral with a score of four (Range 0-9).

Source: PSG Wealth



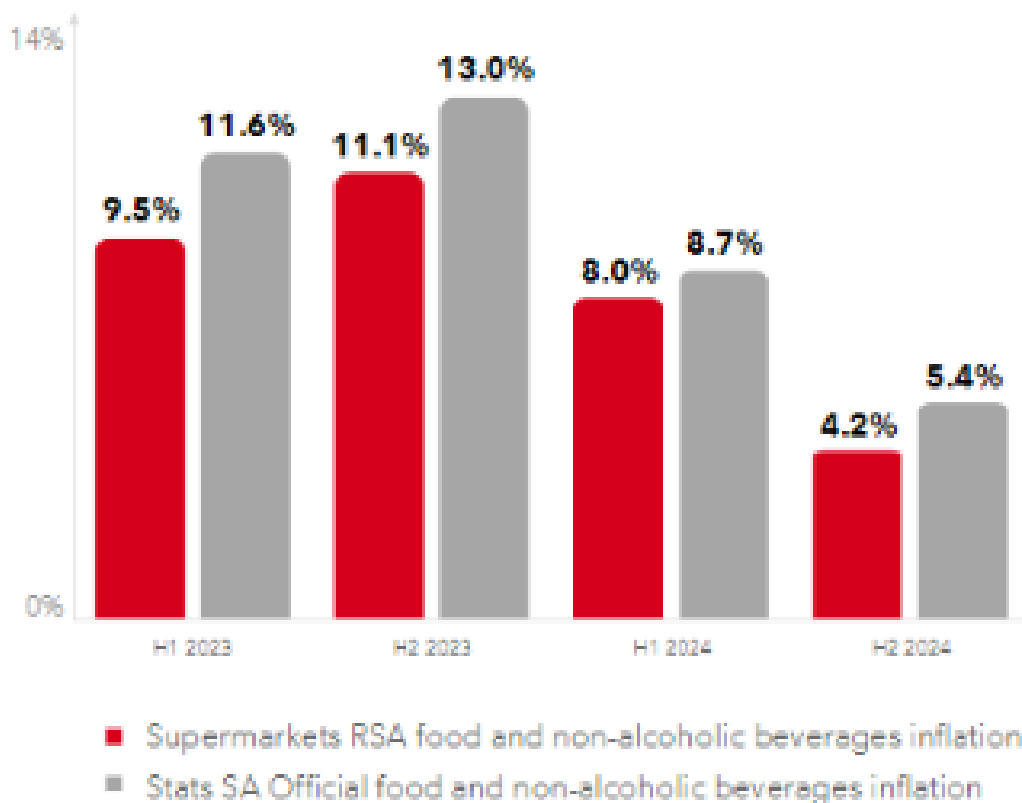
Most recent results

On 3 September 2024, Shoprite released its fullyear financial results for year end 30 June 2024.

1. Total sales grew by 12% year-on-year to R240.7 billion and a like-for-like increase of 6.3%.
2. Gross profit grew by 11.7% to R57.8 billion. Gross profit margin remained stable at 24%.
3. Market share growth of R6.5 billion, 64 months of uninterrupted market share gains taking total market share to approximately 35%.
4. Diluted HEPS grew 7.4%.

Dividend of 712 cents, an increase of 7.4% year-on-year, however the dividend yield is below competitors

Graph 1: Shoprite inflation vs SA official food inflation



Source: Company presentation

Operation Update

On 27 January 2025, Shoprite released an operational update for H1 FY25.

1. Group sales were up 9.5% broken down by:
 - Supermarkets RSA: 10.4%
 - Supermarkets Non-RSA: 4.1%
 - Other operating segments: 6.2%
2. Supermarkets RSA opened a net 248 stores were added over the past 12 months.
3. H1 2025 internal selling price inflation measured at 1.9%.



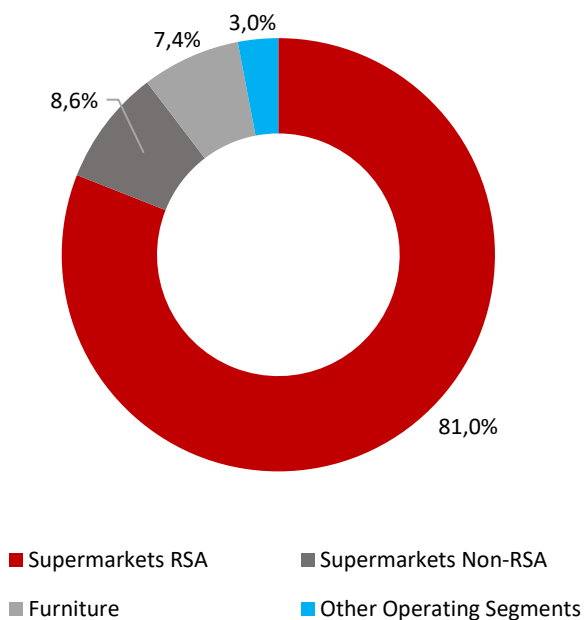
Table 3: Price performance

Price Return	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Shoprite Holdings Limited	-0.3%	-0.3%	-3.9%	-0.3%	11.4%	22.5%	39.4%	150.6%	56.2%
JSE Capped SWIX	0.7%	0.7%	-3.0%	4.3%	13.8%	5.2%	13.7%	38.8%	33.0%
Outperformance / Underperformance	-1.0%	-1.0%	-0.9%	-4.6%	-2.4%	17.3%	25.8%	111.8%	23.2%

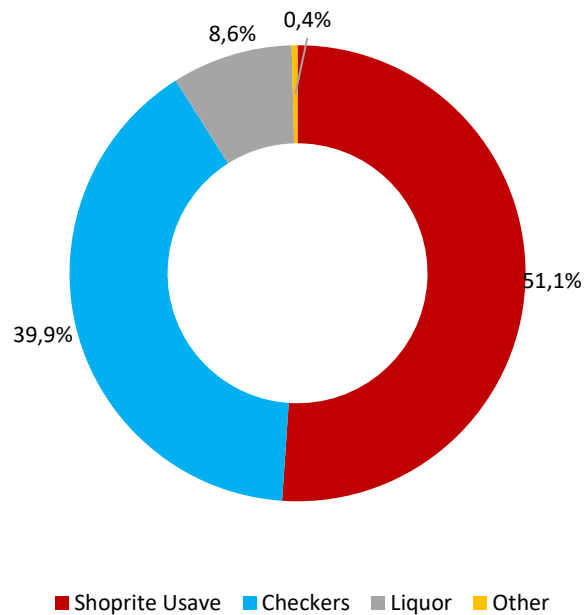
Overview

The company consists of four operating segments with the majority of revenue coming in South Africa.

Graph 2: Revenue Split FY24



Graph 3: SA Revenue Breakdown FY24



■ Supermarkets RSA

■ Supermarkets Non-RSA

■ Furniture

■ Other Operating Segments

■ Shoprite Usave

■ Checkers

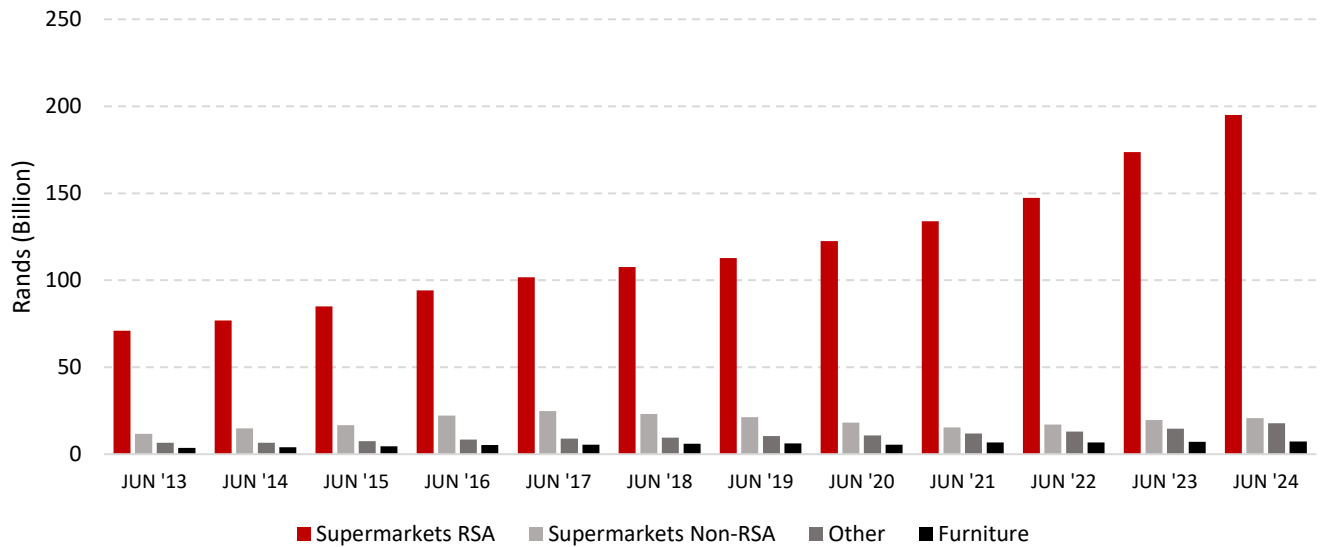
■ Liquor

■ Other



Graph 4: Sales breakdown

Sources: FactSet and PSG Research

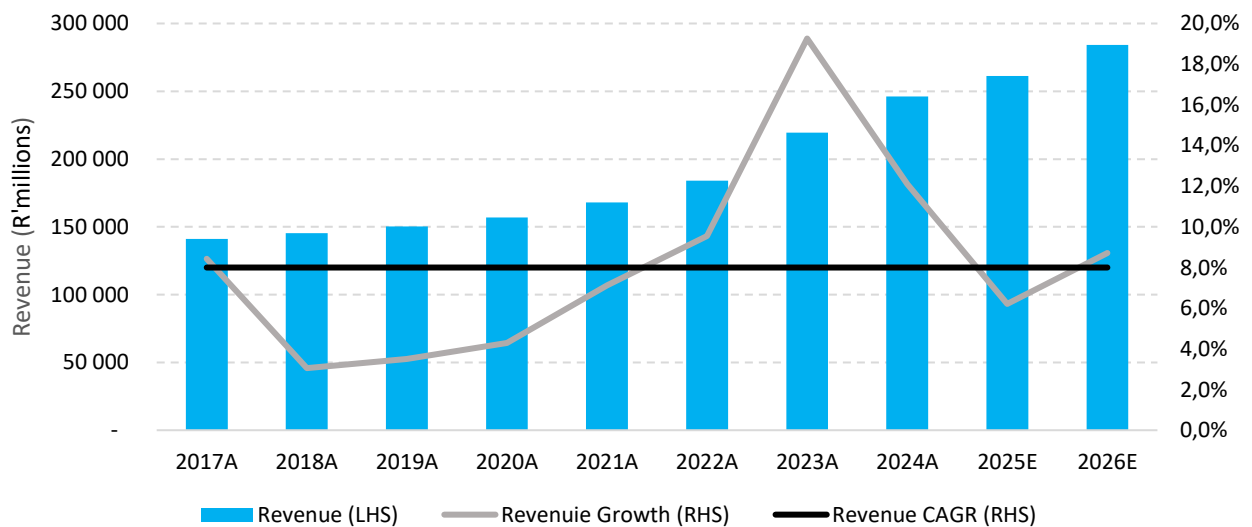


Source: Factset and PSG research

The company's strategy is set out clearly:

1. To provide industry leading growth:
 - a. Supermarkets RSA grew by 10.4% year-on-year whilst group sales increased to R128.6 billion for H1 FY25.
 - b. Shoprite and Checkers Liquor Shop sales increased by 12.2%
 - c. Checkers and Checkers Hyper, inclusive of Checkers Sixty60, reported sales growth of 13.5% with online sales from our Checkers Sixty60 on-demand platform increasing by 47.1%
 - d. Shoprite and Usave reported sales growth of 6.7%
 - e. Store visits were up 4.5% despite the surge in online sales.
 - f. R6.5 billion gain in market share to take RSA market share to 35%, 64 months of uninterrupted market share gains.

Graph 5: Revenue analysis

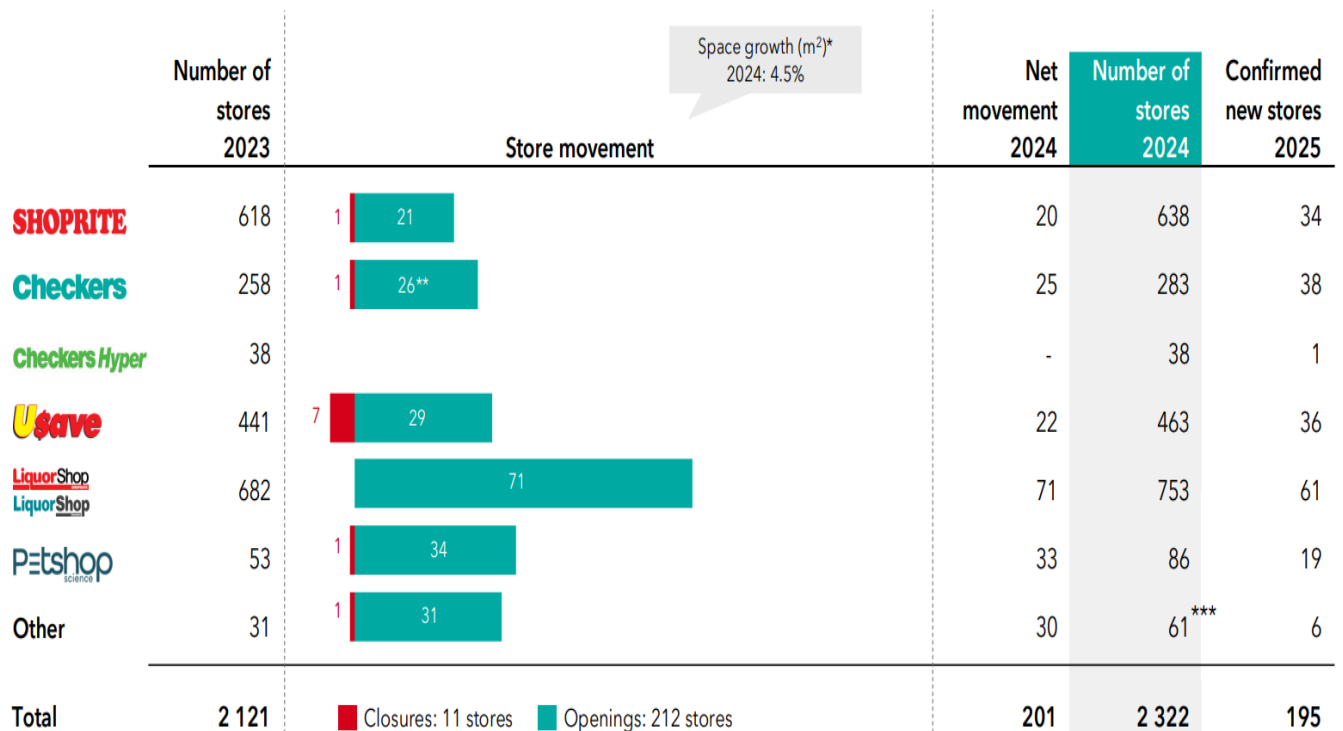


Sources: FactSet and PSG Research



2. Shield customers from rising costs amid high inflation.
 - a. Selling prices were down by 1.9% despite food inflation being 3.0% in December 2024.
 - b. The company continues with price freezing initiatives such as a R5 loaf of bread, of which they sell 1.8m a week.
3. Store growth and new additions to the company portfolio.
 - a. New openings of 30 were Shoprite, 28 Usave, 35 Checkers and 80 Liquor Shop stores.
 - b. Continued addition of Pet shop Science and Checkers Outdoor.
 - c. Sale of furniture business to Pepkor to go through in 2H25.
 - d. Purchase of remaining 50% of Pingo delivery service to go through in 2H25.
4. Maintain stable gross and net margins.

Graph 6: Net store movement



* Space growth represents growth in lettable area (GLA).

** Included in the 26 Checkers store openings are 2 Checkers Foods stores.

*** Included in other: K'nect (5), Little Me (12), Checkers Outdoor (22) and UNIQ clothing by Checkers (22).

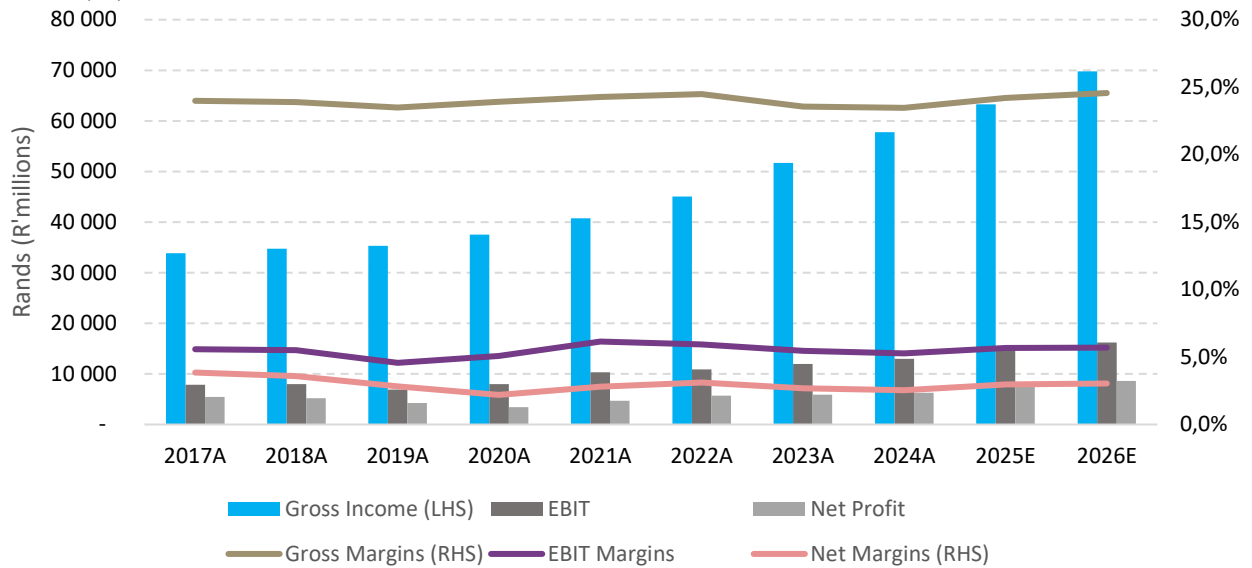


Source: Company Presentation



Graph 7: Margin analysis

Source: Company Presentation



Valuation

We value Shoprite's shares by forecasting the 2026 EBIT and apply a EV/EBIT multiple on a bear, base and bull case scenario. These enable us to calculate an intrinsic value for each scenario, which is then weighed according to a probability assigned to each scenario to determine the final probability-weighted intrinsic value.

Over a 10-year time horizon, which includes the impacts of the Covid era, we see Shoprite's EV/EBIT multiple is above its average of 12.8x. In our base case, we apply an exit multiple of 11.6x EBIT and a revenue growth rate of 6.2%, gross margins of 24% and EBIT margins of 5.5% and assign a 50% probability. The bear case assumes a slightly multiple of 10.5x with a 20% probability. In the bull case we assign a multiple of 12.7x which is above its long-term average but below where it sits currently at 13.5x and assign 30% probability owing to management's continued efforts to grow the business and maintain margins, however, this is quite stretched and should have some mean reversion. With this we come to an intrinsic value of R278 which is a 1.8% downside to the current share price and recommend a hold position.

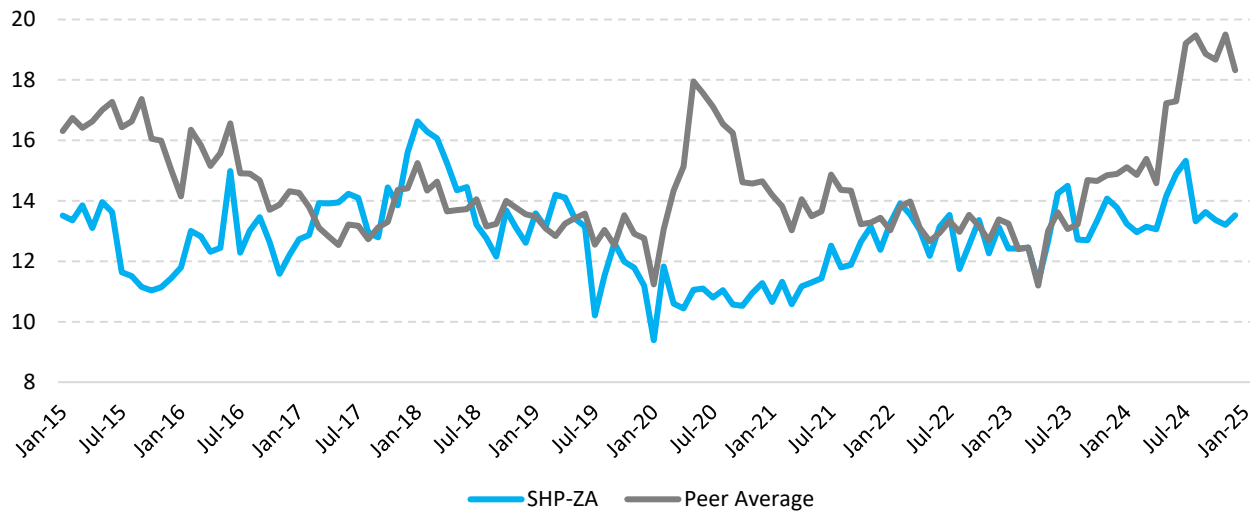
Table 4: Valuation

	Bear	Base	Bull
2026 EBIT (R'm)	15 796	15 796	15 796
Consensus EBIT	15 455	15 455	15 455
EV/EBIT Multiple assumptions (x)	10.5	11.6	12.7
Discounted Enterprise Value (R'm)	165 858	183 234	200 609
Net Debt/(Cash) (R'm)	33 544	33 544	33 544
Equity Value (R'm)	132 314	149 690	167 065
Shares in Issue	544	544	544
Intrinsic Value per case (R'm)	243.22	275.16	307.11
Upside/downside per case	-14.2%	-2.9%	8.4%
Case Weight	20%	50%	30%
Intrinsic Value (R)		R 278.36	
Current share price		R 283.35	
Upside/(downside)		-1.8%	



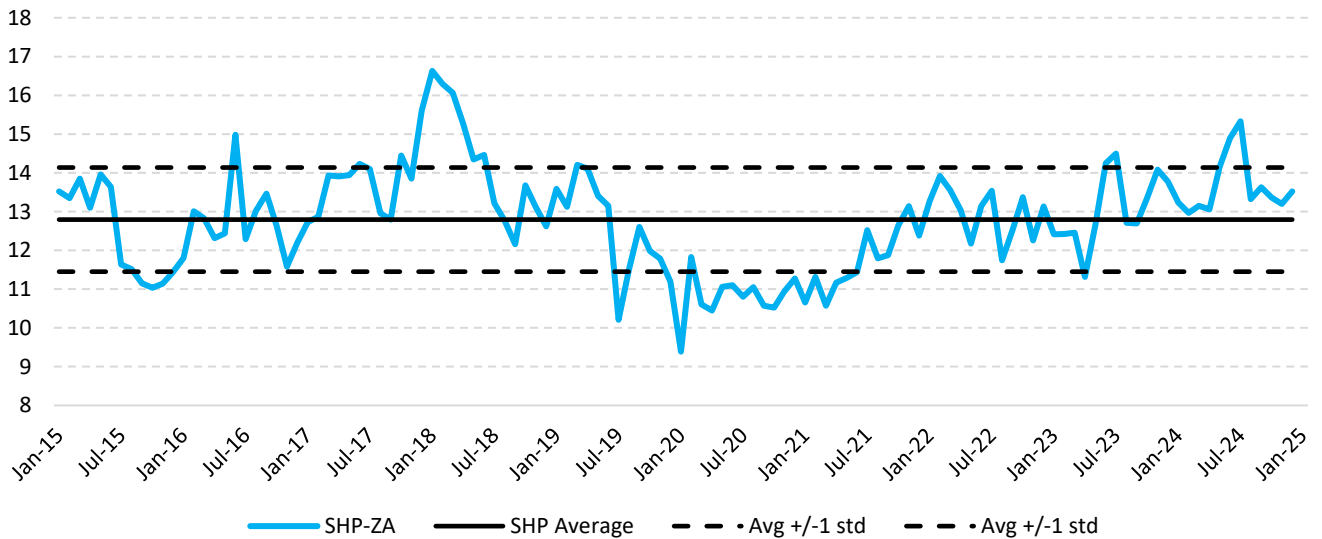
Source: PSG Wealth research

Graph 8: EV/EBIT FY1 vs Peers



Source: FactSet

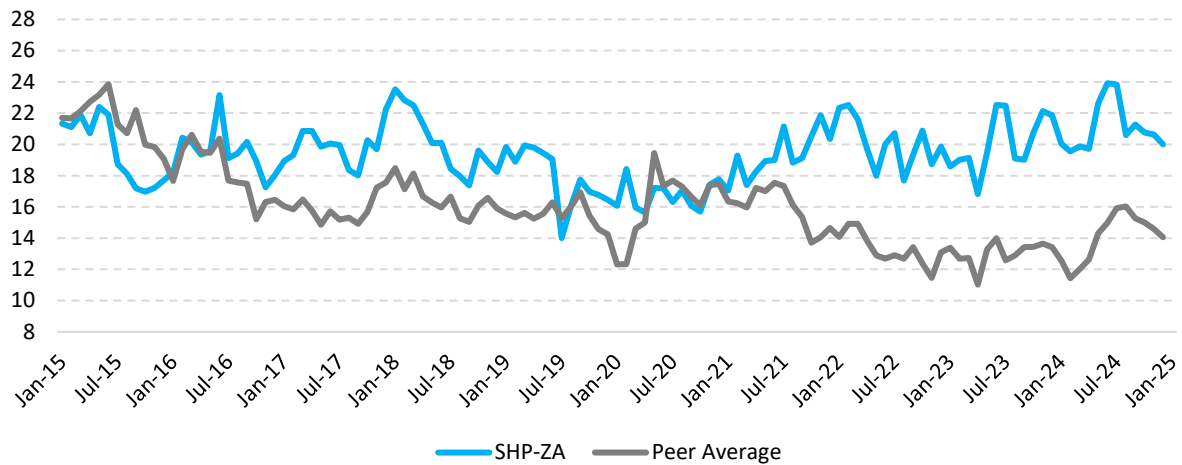
Graph 9: EV/EBIT FY1 versus 10-year average



Source: FactSet

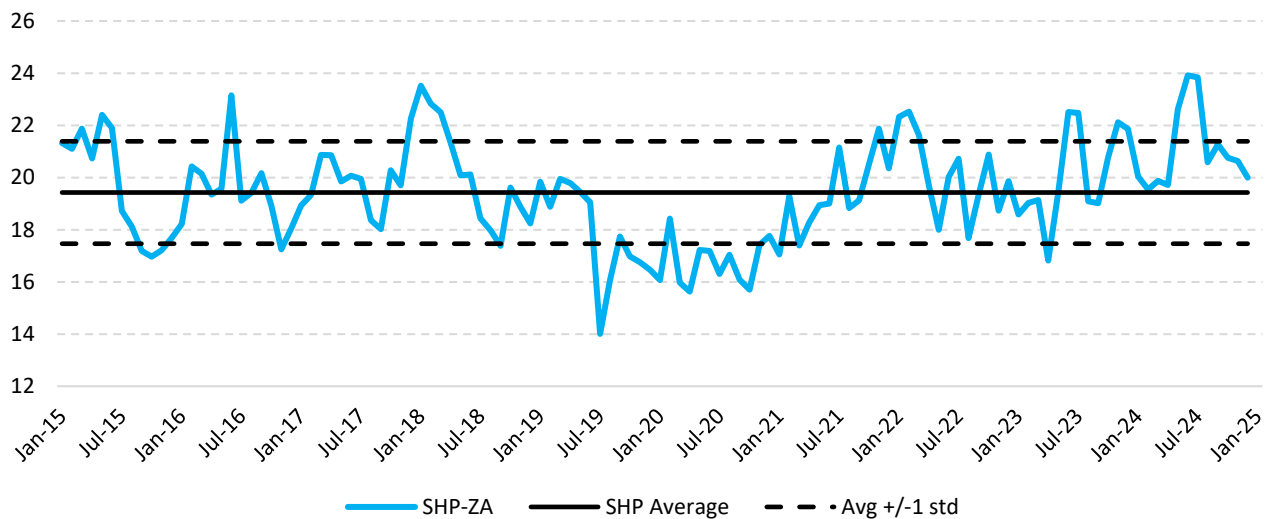


Graph 10: P:E FY1 versus peers



Source: FactSet

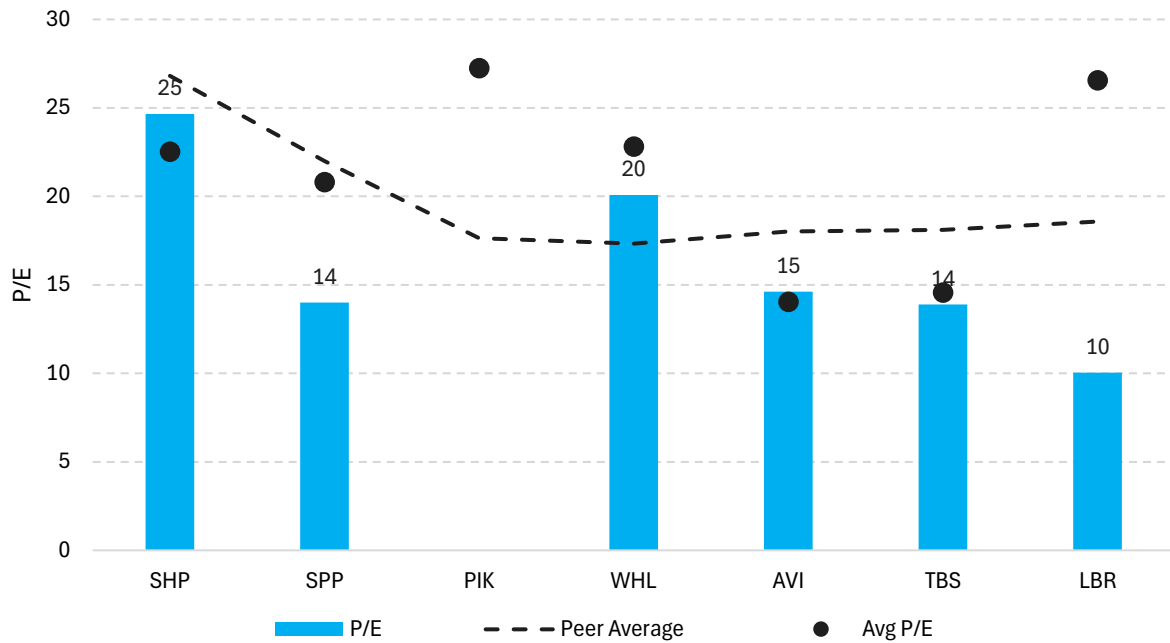
Graph 11: P:E FY1 versus 10-year average



Source: FactSet

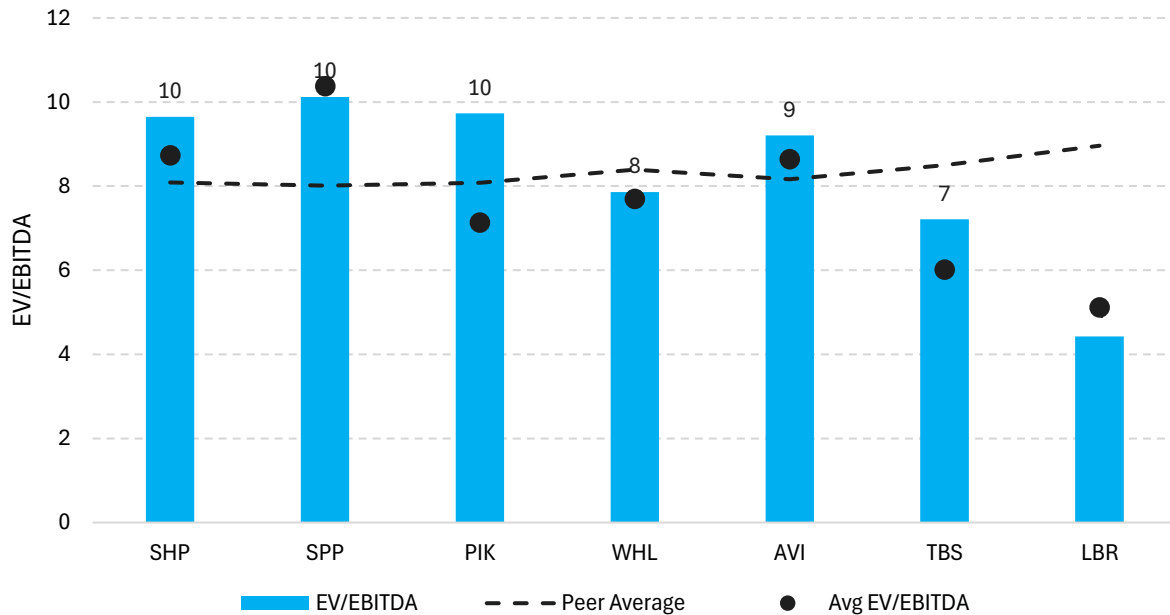


Graph 12: Extended peer P:E comparison



Source: FactSet

Graph 13: Extended peer EV/EBITDA comparison

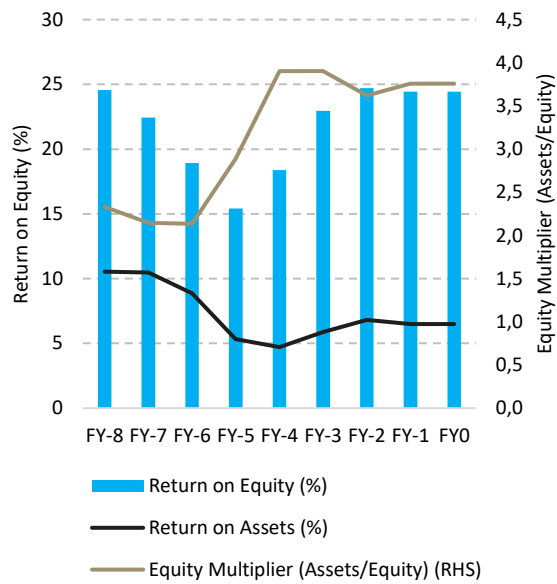


Source: FactSet,

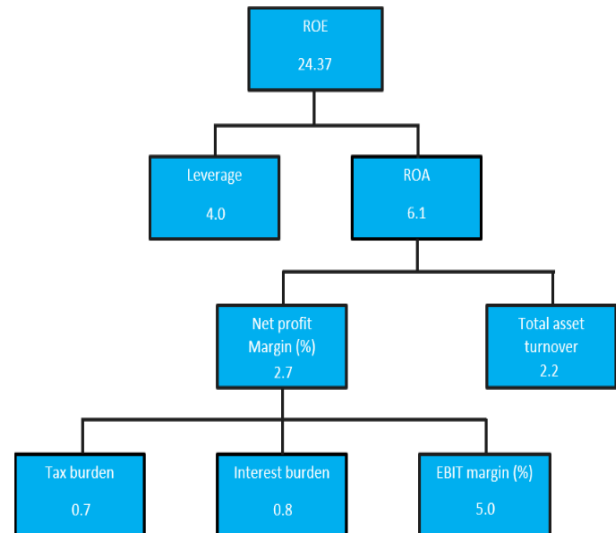


DuPont

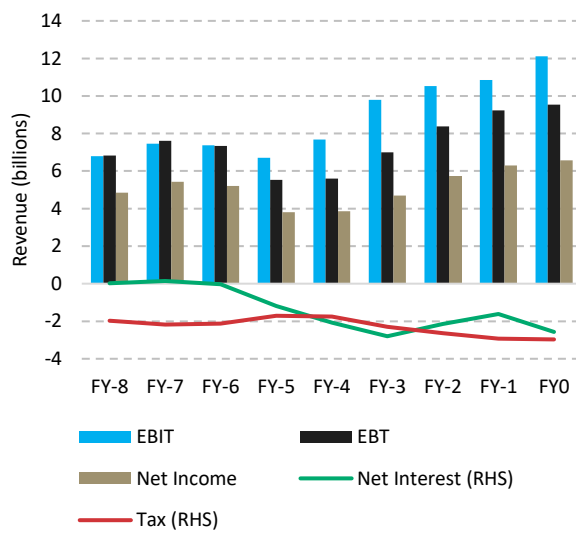
Graph 14: Return on equity



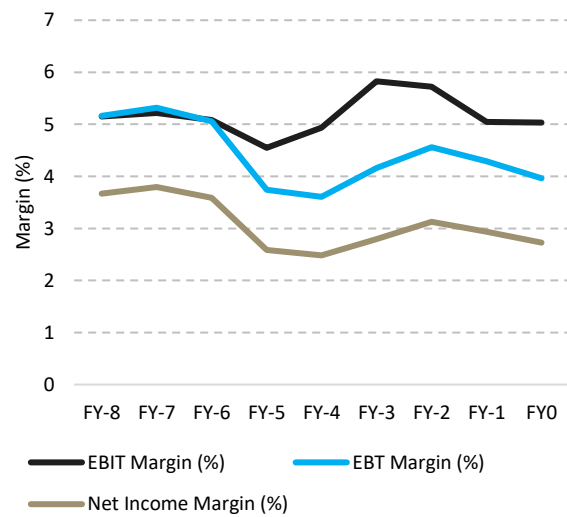
Graph 15: Dupont analysis summary



Graph 16: EBIT, EBT and net income



Graph 17: Margins





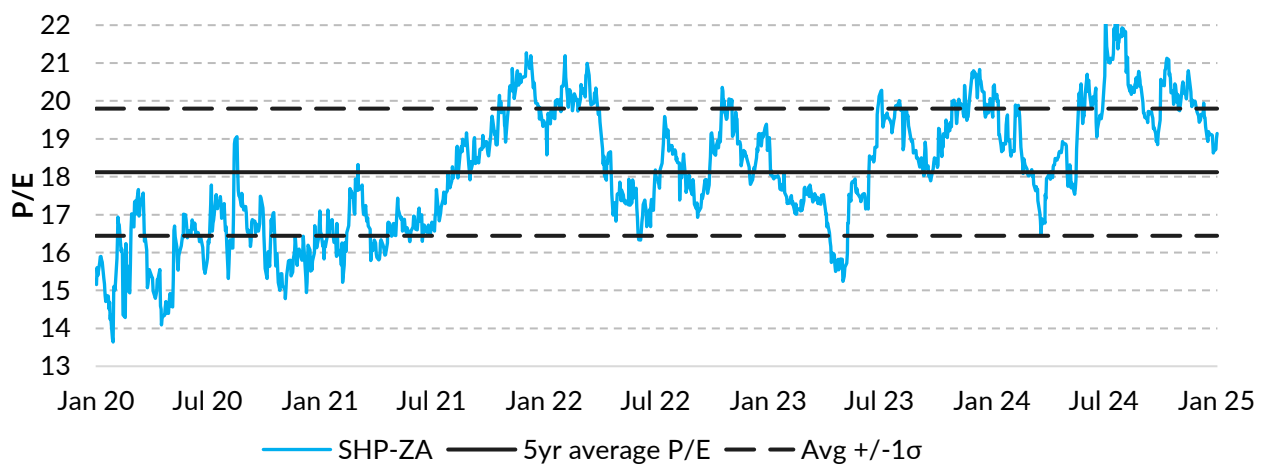
Financial analysis

Table 5: Share price Information

52-week high	R315.69
52-week low	R224.12
Market value (bn)	R173.6
Price momentum	Negative
3m earnings revision	1.7%
Fiscal year end	2025/06/30
Beta (3Y, daily)	0.64

Source: FactSet

Graph 18: Price to earnings



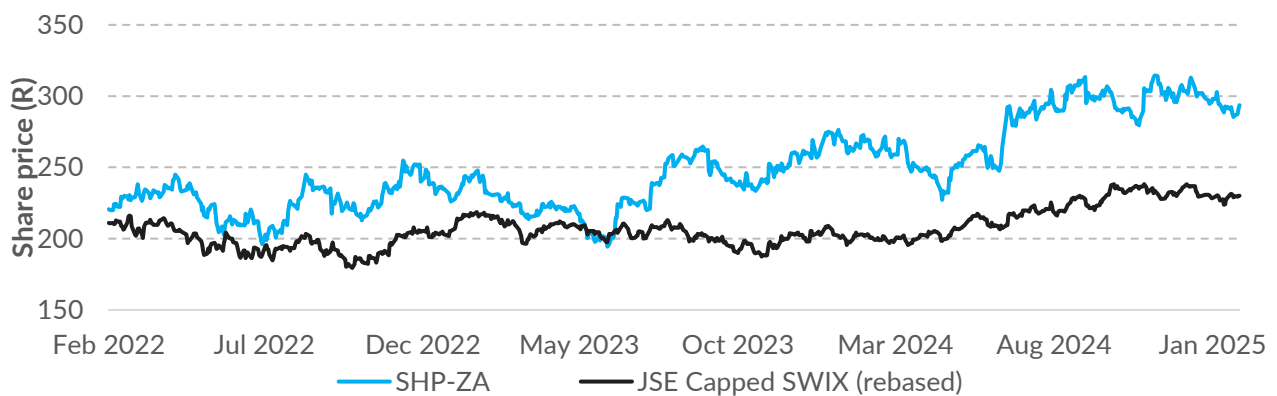
Source: FactSet



Table 6: Valuation multiples

Multiple	Latest:	Last note:
	Jan-2025	Jun-2024
P/E	19.1x	17.9x
P/S	0.6x	0.6x
P/B	4.9x	4.2x
P/CF	-	17.3x
EV/EBITDA	8.9x	7.5x
EV/EBIT	12.8x	12.0x
EV/SALES	0.7x	0.7x
Dividend yield	3.0%	3.2%
FCF yield	4.0%	2.9%

Graph 19: Share price history versus benchmark



Source: FactSet

Table 7: Key competitors

Code	Price (local)	Market Cap (Rbn)	Sales FY0 (Rbn)	EBIT FY0 (Rbn)	Net Income FY0 (Rbn)	EV/EBIT	P/E (NTM)	Price % (3mo)	Price % (1YR)
SHP-ZA	SHP-ZA	283.8	168	246	13	6	12.9x	18.8x	-6.4%
SPP-ZA	SPP-ZA	138.9	27	152	3	2	13.4x	11.8x	7.7%
PIK-ZA	PIK-ZA	29.1	22	112	0	-3	18.9x	47.2x	11.6%
WHL-ZA	WHL-ZA	59.1	58	77	5	3	11.1x	14.2x	-10.1%

Source: FactSet



FactSet Consensus

Table 8: Statement breakdown

Income statement (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Sales	150.4	156.9	168.0	187.7	219.5	246.1	10.35%	261.4	284.1
Y/Y growth (%)	-	4.3	7.1	11.7	16.9	12.1		6.2	8.7
Gross income	35.3	37.5	40.8	45.1	51.7	57.8	10.32%	63.3	69.8
Y/Y growth (%)	-	6.2	8.6	10.5	14.7	11.7		9.5	10.4
EBITDA	9.5	13.2	15.7	16.4	18.0	20.2	16.27%	21.5	24.1
Y/Y growth (%)	-	38.7	18.7	4.9	9.3	12.5		6.2	12.0
EBIT	6.9	8.0	10.3	10.9	11.8	13.0	13.57%	14.8	16.7
Y/Y growth (%)	-	15.8	29.8	5.7	8.0	10.2		14.1	12.4
Net income	4.3	3.4	4.7	5.7	5.9	6.2	7.96%	7.7	8.6
Y/Y growth (%)	-	-19.2	36.5	21.3	3.2	6.2		23.7	11.5
EPS	7.7	7.6	8.8	10.5	11.6	11.9	9.13%	13.9	15.6
Y/Y growth (%)	-	-1.4	16.9	18.6	10.6	2.3	10.35%	17.1	12.7

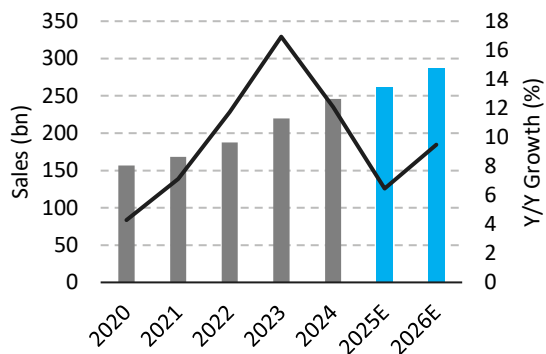
Balance sheet and cash flow (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Capex	5.28	3.217	3.218	5.381	6.689	7.8	8.12%	8.1	8.6
Cash from operations	2.0	10.2	6.7	7.1	9.2	14.2	47.65%	9.5	14.9
Free cash flow	-1.4	7.0	3.9	1.8	1.7	0.7	-186.69%	5.8	6.8
Y/Y growth (%)	-	-604.2	-43.5	-55.1	-4.7	-59.8		753.2	18.2
Cash and ST investments	7.7	12.1	8.0	11.0	13.2	10.3	5.94%	7.9	8.3
Total assets	65.0	82.0	75.6	91.5	101.1	112.3	11.56%	121.3	132.5
ST debt	9.1	8.4	7.1	9.2	10.3	6.9	-5.47%	6.9	6.9
LT debt	28.2	29.0	27.1	33.0	38.3	42.5	8.54%	50.1	54.3

Ratios (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Gross margin (%)	23.5	23.9	24.3	24.0	23.6	23.5	23.8	24.2	24.6
EBIT margin (%)	4.6	5.1	6.1	5.8	5.4	5.3	5.5	5.7	5.9
Net income margin (%)	2.8	2.2	2.8	3.0	2.7	2.5	2.6	3.0	3.0
Current ratio	1.2	1.2	1.2	1.3	1.3	1.3	1.3	-	-
Total debt to equity	168.8	188.3	162.4	165.3	185.8	177.6	175.9	-	-
Total debt to assets	46.1	45.2	44.4	46.1	47.4	43.9	45.4	-	-
ROA (%)	5.3	4.7	5.9	6.8	6.5	6.1	6.0	-	-
ROE (%)	15.4	18.4	23.0	24.7	24.4	24.4	23.0	-	-

Source: FactSet

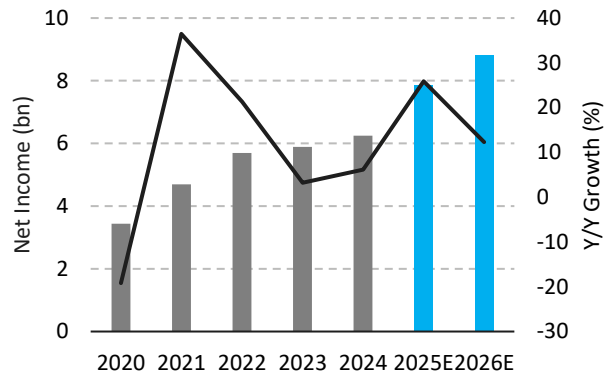


Graph 20: Annual sales

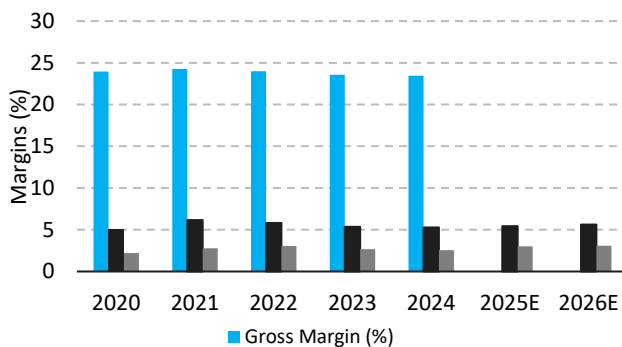


Source: FactSet

Graph 21: Annual net income

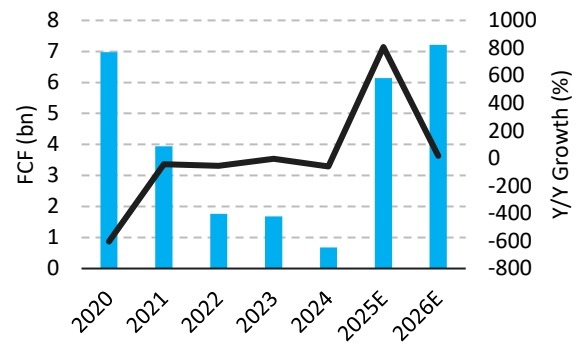


Graph 22: Gross, EBIT, net margins

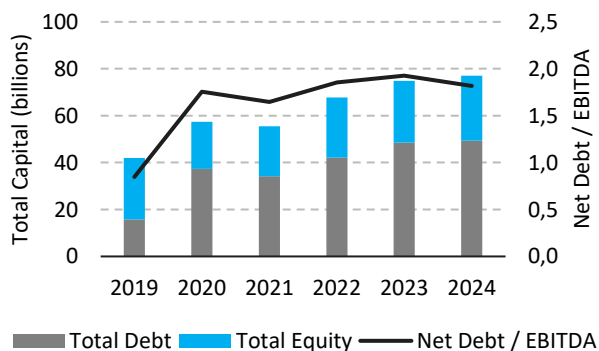


Source: FactSet

Graph 23: Free cash flow

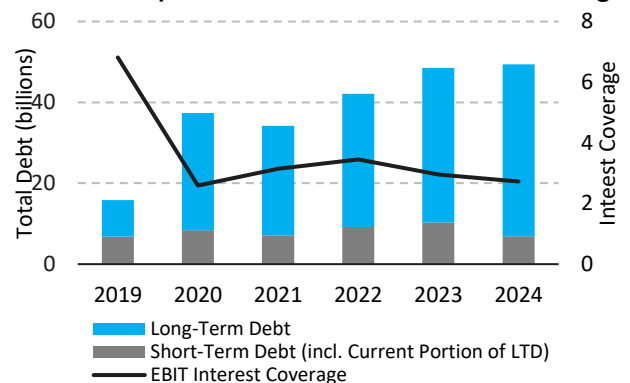


Graph 24: Capital structure and net debt/EBITDA



Source: FactSet

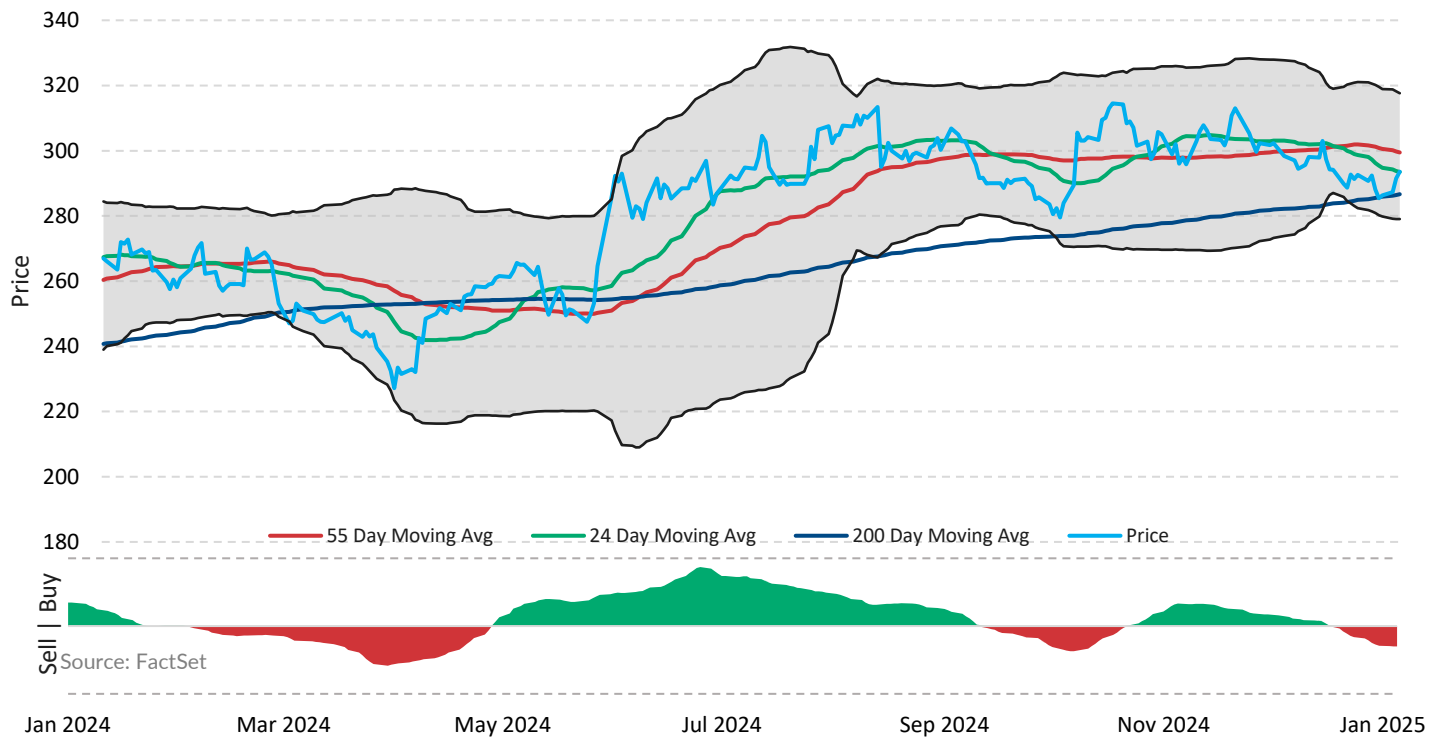
Graph 25: Total debt and interest coverage





Graph 26: Price Momentum

Last: 293.62 | Bollinger Bands: (50,3) [Upper/Lower]: 317.66/279.





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